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EASTERN CARIBBEAN CURRENCY UNION

April 2024

2024 STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION ON COMMON POLICIES OF MEMBER COUNTRIES OF THE EASTERN CARIBBEAN CURRENCY UNION—PRESS RELEASE AND STAFF REPORT

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 2024 Article IV consultation with member countries forming the ECCU, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on February 13, 2024, 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 March 21, 2024.
- An **Informational Annex** prepared by the IMF staff.

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

- Selected Issues

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

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR24/128

IMF Executive Board Concludes 2024 Article IV Consultation on Common Policies of Member Countries of the Eastern Caribbean Currency Union

FOR IMMEDIATE RELEASE

Washington, DC – April 25, 2024. On April 12, 2024, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with member countries on common policies of the Eastern Caribbean Currency Union. The Board considered and endorsed the staff appraisal without a meeting.

The economies of the Eastern Caribbean Currency Union (ECCU) have registered a strong recovery after successive external shocks—first, the pandemic and later higher commodity prices after Russia's invasion of Ukraine. Led by a rebound in tourism and investment by public and private sectors, the region's real GDP is estimated to have grown by 4.8 percent in 2023, and output has surpassed its pre-pandemic levels. Inflation has moderated to around 4 percent in 2023 from its recent commodity price driven peak. Fiscal and external balances have improved, but public debt and current account deficits remain high. The financial system has been stable and liquid, although continues to be confronted by asset quality weaknesses and rising risks in the non-bank financial sector.

Longstanding structural challenges affecting private investment and employment create a drag on growth going forward as the ECCU economies approach full export and production capacity. Economic growth is projected to moderate to 4.8 percent in 2024 and decelerate further toward pre-pandemic averages over the medium-term. Inflation is projected to moderate gradually in line with international trends and stabilize at around 2 percent in 2026. The high current account deficits are similarly projected to gradually narrow to pre-pandemic levels as pressures from import-intensive capital investment abate and countries with slower tourism recovery catch up with their peers.

The region's outlook is heavily dependent on uncertain Citizenship-by-Investment (CBI) inflows, and susceptible to volatility in commodity prices, a slowdown in major tourism source countries, and the recurrent threat of natural disasters.

Executive Board Assessment[2]

The ECCU has experienced a strong recovery from successive pandemic and commodity price shocks, but capacity constraints and elevated risks increasingly weigh on the outlook.

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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 discussions, 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] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Tourism rebound and investment have lifted real GDP above pre-pandemic levels, and inflation has moderated with easing of commodity price pressures. The more benign economic environment has supported an improvement in external and fiscal balances, although public debt remains high in many ECCU members and the ECCU's overall external position weaker than the level implied by fundamentals and desirable policies. As tourism performance nears full capacity amidst continued post-pandemic restoration of public and private balance sheets, GDP growth is projected to moderate toward pre-pandemic averages over the medium term. The region's growth and fiscal outlooks are heavily dependent on uncertain CBI inflows which remain under close international scrutiny. Other key risks include the high susceptibility to commodity price volatility, slowdown in major tourism source countries, rising vulnerabilities in the ECCU non-bank financial system, and the recurrent threat of natural disasters.

Policies should focus on addressing structural constraints to sustainable, inclusive, and resilient growth and reduce fiscal and external imbalances to support continued robustness of the quasi-currency board. Priorities include preserving macro-financial stability and fiscal space for growth-enhancing physical and social investment, strengthening financial sector balance sheets and oversight, fostering local private sector development and investment, and improving the labor market.

Continued rebuilding of fiscal buffers while ensuring space for growth-supporting investment remains critical for the currency union's macroeconomic stability and shock-resilience. Balancing these competing objectives can be supported by the continued withdrawal of the temporary measures that responded to the cost-of-living crisis and the adoption of fuel price pass-through frameworks, while strengthening the targeting and coverage of transfers to the most vulnerable. Reviving a regional initiative to streamline tax exemptions under common benchmarks would help lift fiscal revenue. Pooling of regional resources and expertise can help reduce impediments and costs to access international climate finance. Maintaining recent pension reform momentum would address the large longer-term contingent fiscal liabilities and improve the pension systems' fairness and equity.

ECCU-wide adoption of national FRFs would help underpin a consistent decline in public debt and enhance credibility of the regional public debt ceiling. Guiding operational rules should be tailored to each member country, with calibration and escape clauses ensuring a fiscal cushion to respond to shocks. Operationalizing regular ECCB Monetary Council peer reviews of member efforts toward the regional debt target would support union-wide fiscal discipline and accountability. Parallel reforms to strengthen fiscal institutions are essential for the FRFs' effective implementation.

Deepening regional cooperation on CBI programs would help safeguard this important source of revenue. Building on the already established principles, cooperation would benefit from common due diligence, transparency, and disclosure standards. A regional CBI framework could also include minimum pricing benchmarks to mitigate revenue-erosive competition. Common principles on CBI revenue allocation would contain undue fiscal reliance on the programs, support rebuilding of fiscal buffers, and help ensure space for growth-enhancing investment and social protection.

Persistent vulnerabilities require efforts to strengthen financial sector balance sheets and oversight. While the financial system remains stable and highly liquid, addressing underlying asset quality vulnerabilities calls for continued enforcement of bank provisioning regulations, adoption of similar standards for credit unions, and reforms to facilitate disposal of impaired assets. Rising risks in the NBFI sector demands stepped up oversight, with immediate priority to ensure all national supervisors have adequate powers, staffing and data to undertake corrective actions where necessary. The planned introduction of common minimum regulatory standards under the RSSB needs to be pursued expeditiously to mitigate rising arbitrage risks in the current segmented regulatory space. Eventual centralization of NBFI oversight under a model that leverages national supervisors' local presence should be the ultimate goal to safeguard the region's financial stability.

Rising private sector insurance affordability challenges necessitate early preparation for potential future mitigating actions. The evolving assessment of climate risks by global reinsurers may imply sustained pressures on property insurance premia with spillovers to financial system credit and asset quality. The risks to economic activity and indirect transmission of natural disasters underscore a need to step up insurance sector data collection, regional supervisory cooperation, and assessment of insurance-banking interlinkages to support monitoring and management of system-wide risks. This would also facilitate assessment of fiscal contingent liability risks from widespread private sector underinsurance.

Greater coordination can support ongoing efforts to foster private investment, credit, and local enterprise development. The credit reporting bureau, the partial credit guarantee program, and development of movable collateral frameworks are important advances to revive private sector credit. These would benefit from coordinated complementary programs to support small businesses' ability to meet financing requirements and reforms to strengthen insolvency frameworks, creditor rights, and regional capital market development.

Strengthening supervisory resources would support the continued advancement of the financial system reform agenda. The rollout of the Basel II/III prudential standards, the formalization of ECCB's system-wide oversight authority, and the ongoing strengthening of AML/CFT frameworks are important advances toward further modernizing regulations and supervisory processes. It is important for regional and national supervisory capacity to keep pace with growing demands and NBFIs' increasing systemic importance. The introduction of a regional bank deposit insurance system should be aligned with parallel progress in reducing legacy bank vulnerabilities. Its extension to credit unions should be considered only under a more unified oversight framework for all deposit taking institutions.

Labor markets in the ECCU have been recovering in tandem with the post-pandemic economic rebound, but longstanding bottlenecks constrain labor supply and growth potential. Labor market institutions should achieve an effective balance between efficiency and equity objectives and a recalibration may be warranted, particularly as unemployment insurance schemes are introduced into benefit frameworks. Reforms in this context should be supported by targeted active labor market policies to help reduce informality, decrease skills and competency mismatches, raise participation rates, and ease gender and youth gaps in labor outcomes.

Concerted region-wide efforts to strengthen data collection, processing, and transparency are essential to help improve the calibration of economic policies. Data compiled and disseminated by the ECCB are broadly adequate for surveillance of common policies. However, addressing current data gaps in core economic sectors and improving transparency would support the design, effective regional coordination and public accountability over economic policies. Strengthening resources at national statistics offices would improve accuracy, timeliness, and frequency of key economic data.

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

ECCU: Selected Economic and Financial Indicators, 2019–25 1/

					Est.	Proj.	
	2019	2020	2021	2022	2023	2024	2025
	(Annual percentage change)						
Output and Prices							
Real GDP	2.1	-16.9	6.0	10.0	4.8	4.3	3.3
GDP deflator	2.2	-2.0	3.4	4.3	4.3	2.4	2.2
Consumer prices, average	0.7	-0.6	1.7	5.6	3.9	2.3	2.0
Monetary Sector							
Net foreign assets	5.1	6.1	16.5	0.9	3.7	5.9	1.9
Central bank	-2.8	3.6	11.6	-4.8	8.3	9.3	5.9
Commercial banks (net)	14.1	8.5	21.1	5.9	0.1	3.2	-1.7
Net domestic assets	1.0	-16.5	1.2	10.4	14.3	3.1	10.5
Of which: private sector credit	0.5	-0.9	1.5	1.6	4.0	4.1	3.9
Broad money (M2)	3.1	-4.7	10.1	4.6	8.0	4.7	5.5
	(In percent of GDP, unless otherwise indicated)						
Public Finances							
Central government							
Total revenue and grants	26.1	29.0	30.6	30.5	28.8	29.0	27.1
Total expenditure and net lending	28.3	35.6	33.9	33.6	30.9	30.6	29.1
Overall balance 2/	-2.2	-6.6	-3.4	-3.1	-2.1	-1.5	-2.0
Of which: expected fiscal cost of natural disasters	0.4	0.5	0.4	0.5	0.7	0.7	0.7
Excl. Citizenship-by-Investment Programs	-5.8	-12.0	-9.3	-7.3	-6.7	-4.2	-4.3
Primary balance 2/	0.2	-4.1	-1.0	-0.8	0.2	0.7	0.2
Total public sector debt	67.1	86.1	82.9	75.3	72.2	71.8	70.5
External Sector							
Current account balance	-8.5	-19.1	-19.1	-13.2	-12.3	-11.2	-9.9
Trade balance	-30.9	-29.4	-30.6	-34.1	-35.3	-35.4	-34.2
Exports, f.o.b. (annual percentage change)	35.8	-29.3	26.2	48.1	8.8	0.4	10.3
Imports, f.o.b. (annual percentage change)	-1.4	-23.2	15.2	29.6	12.8	6.5	2.7
Services, incomes and transfers	22.4	10.2	11.5	20.9	23.0	24.2	24.3
Of which: travel	38.9	17.0	20.7	34.8	37.3	38.6	38.8
External public debt	34.8	45.4	46.1	41.7	41.8	44.1	44.7
External debt service (percent of goods and nonfactor services)	10.2	21.3	14.9	10.3	9.5	9.1	8.6
International reserves							
In millions of U.S. dollars	1,698	1,747	1,952	1,869	2,015	2,202	2,332
In months of prospective year imports of goods and services	6.3	5.7	4.8	4.1	4.2	4.4	4.5
In percent of broad money	26.0	28.1	28.5	26.1	26.1	27.2	27.3
REER (average annual percentage change)							
Trade-weighted 3/	1.7	-1.8	-4.4	1.9	0.6	…	…

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/ Projections include expected fiscal costs of natural disasters.

3/ Excludes Anguilla and Montserrat.

INTERNATIONAL MONETARY FUND

EASTERN CARIBBEAN CURRENCY UNION

March 21, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION ON COMMON POLICIES OF MEMBER COUNTRIES OF THE EASTERN CARIBBEAN CURRENCY UNION

KEY ISSUES

Context. After successive external shocks—first, the pandemic and later higher commodity prices after Russia's invasion of Ukraine—the region's output has surpassed its pre-pandemic level boosted by a strong tourism rebound and investment. Inflation is moderating from its peak. Fiscal and external balances have improved, but public debt and current account deficits remain high. The financial system has been stable and liquid, although it continues to be confronted with asset quality weaknesses and rising risks in the non-bank financial sector. Longstanding structural challenges affecting private investment and employment create a drag on growth going forward. The region's outlook is heavily dependent on uncertain Citizenship-by-Investment (CBI) inflows, and susceptible to volatility in commodity prices, a slowdown in major tourism source countries, and the recurrent threat of natural disasters.

Policy advice. With output recovery largely completed, economic policies should focus on addressing structural constraints to sustainable, inclusive, and resilient growth and reducing fiscal and external imbalances to support continued robustness of the quasi-currency board:

- **Fiscal policy.** The regional priority is to rebuild buffers while protecting the fiscal space for priority public investment and social spending. This can be facilitated by (i) common regional standards for country-specific fiscal rules; (ii) improved targeting of social assistance; (iii) common benchmarks for streamlined tax exemptions; (iv) adoption of fuel price pass-through frameworks; (v) comprehensive pension system reforms; (vi) regional standards for CBI programs; and (vii) pooling of regional resources and expertise to reduce impediments and costs for accessing international climate finance.
- **Financial sector.** The policy priority is to strengthen financial sector balance sheets and oversight, particularly in the non-bank financial sector operating under fragmented regulatory and supervisory standards, while undertaking more coordinated efforts to support local private sector development and investment.
- **Structural policies.** Social policies and institutional labor market reforms would help improve competitiveness by addressing structural constraints to employment and labor productivity. These include ensuring minimum wage frameworks do no disrupt labor allocation efficiency, addressing skills mismatches by reviewing education and training programs, and tackling non-economic barriers to employment and labor productivity.
- **Data adequacy.** Concerted efforts to address gaps in core economic data, improve transparency and strengthen resource capacity for data collection would support calibration of economic policies.

Approved By
Ana Corbacho (WHD) and Fabian Bornhorst (SPR)

The mission team comprised Christoph Duenwald (head), Chris Faircloth, Nan Geng, Janne Hukka, Flavien Moreau (all WHD), and Paul Leonovich (MCM). During the two legs of the mission (January 18-25 and February 6-13, 2024), the team held in-person meetings with all eight ECCU members (Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines). 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 Caribbean Development Bank (CDB), and private sector representatives. Sylvia Gumbs (OED) attended some meetings. Philip Jennings (OED) participated in the concluding meeting. Following the conclusion of the mission, IMF staff virtually presented some of the analytical work in the ECCB's research seminar.
Contributors: ECCU team and Alejandro Guerson. Additional analytical inputs were provided by Sergei Antoshin, Alexandre Chailloux, Sophia Chen, Swarnali Hannan, Sinem Kilic Celik, Weicheng Lian, Huidan Lin, Peter Nagle, Hyunmin Park, Joana Pereira, Spencer Siegel, Dmitry Vasilyev, Holly Wang, and Huilin Wang. Anahit Aghababyan, Laila Azoor, and Brett Smith provided administrative coordination.

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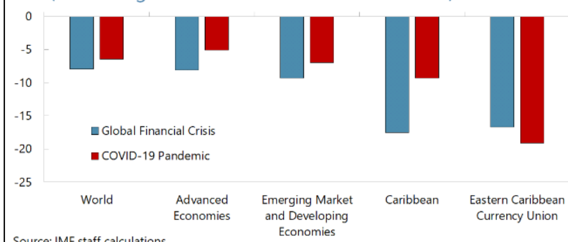
CONTEXT

1. **The ECCU was particularly hard-hit by recent successive global shocks.**[1] The pandemic-induced collapse of tourism (which comprises roughly one-third of ECCU GDP) resulted in an exceptionally severe decline in 2020 output of over 18 percent. The surge in commodity prices following Russia's invasion of Ukraine in 2022 added to economic challenges, amplified by the heavy dependence of the ECCU's small, open economies on food and oil imports.[2]

Output Losses
(Percentage Difference From Precrisis WEO)

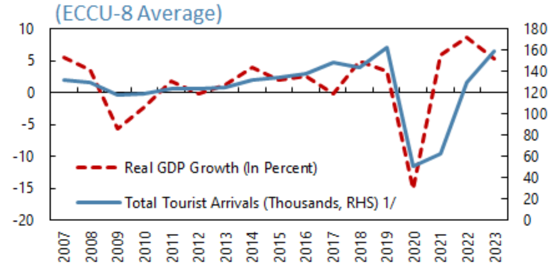


Source: IMF staff calculations.
Note: Bars show the percent difference in real GDP after the crisis and anticipated GDP for the same year prior to the crisis for the indicated group. For the COVID-19 crisis, it compares the current WEO vintage forecast for 2020 versus that from the October 2019 vintage (prior to the pandemic). For the global financial crisis, it compares the April 2007 vintage for 2012 versus the observed 2012 GDP. The Caribbean aggregate does not include Guyana.

RECENT DEVELOPMENTS

2. **The region registered a strong tourism-led recovery in 2021-23 to its pre-pandemic output level.**[3] GDP growth over 2021-23 averaged 6.9 percent in the ECCU. Total tourist arrivals in the ECCU had reached pre-pandemic levels by 2023Q1, except in Dominica, St. Kitts and Nevis, and Montserrat, which reopened later and are expected to fully recover in 2024. Tourist arrival data through end-2023 point to another strong winter season. Besides tourism, the economic recovery was also aided by public and private (FDI-supported) investment, supporting construction activity.

Real GDP Growth and Total Tourist Arrivals
(ECCU-8 Average)

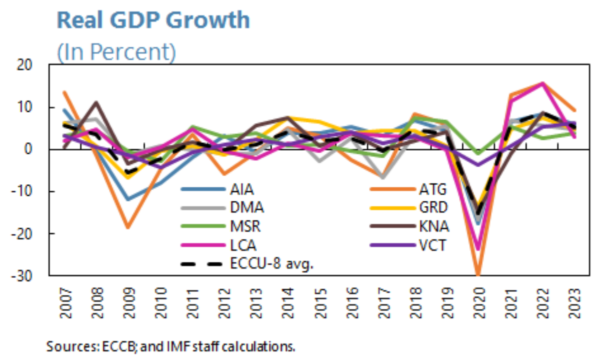


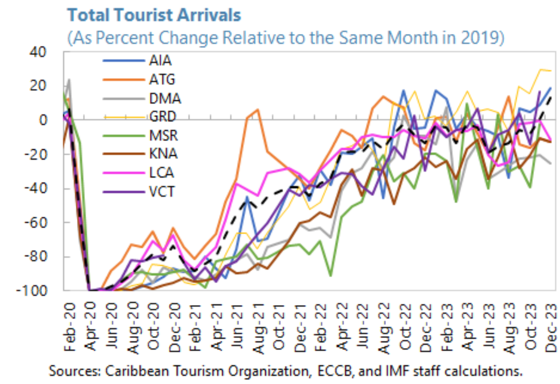
Sources: ECCB; and IMF staff calculations.
1/ 2023 is annualized from monthly data from January 2023 to June 2023.

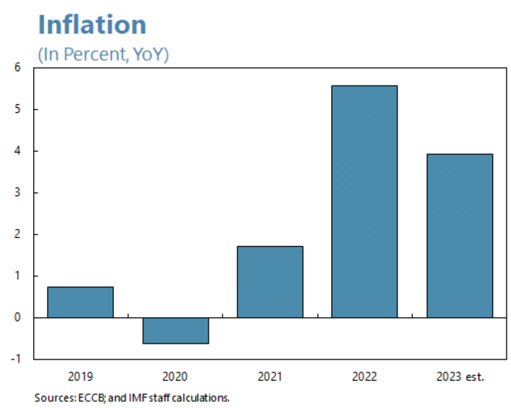
[1] This is a report on the annual consultation discussions with the regional institutions responsible for common policies in the ECCU pursuant to the Decision on the Modalities for Surveillance over ECCU Policies in the Context of Article IV Consultations with Member Countries (Decision No. 13655-(06/1), January 6, 2006, as amended). Throughout the report, the term "authorities" refers to the Eastern Caribbean Central Bank and the national authorities of the ECCU members responsible for policies of common interest.

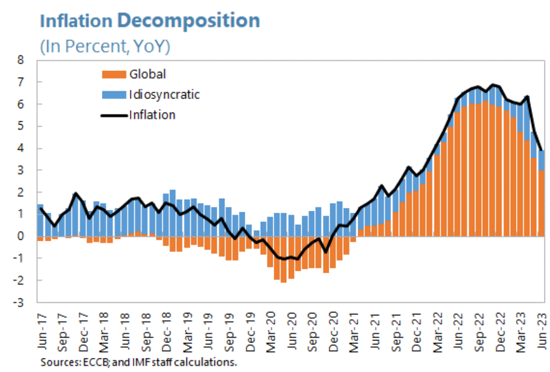
[2] ECCU imports of food and fuel accounted for 40 percent of total imports in 2022.

[3] Annex IV provides a more detailed account of recent developments in the United Kingdom Overseas Territories of Anguilla and Montserrat.









3. Largely imported inflation is moderating from recent peaks. Headline inflation is estimated to have eased to 3.9 percent in 2023 (5.6 percent in 2022). Global factors have accounted for the bulk of the inflation since 2021, including imported food and fuel.[4] Inflation was contained by governments' measures to curb the surge of energy and food prices, which have now been largely removed.

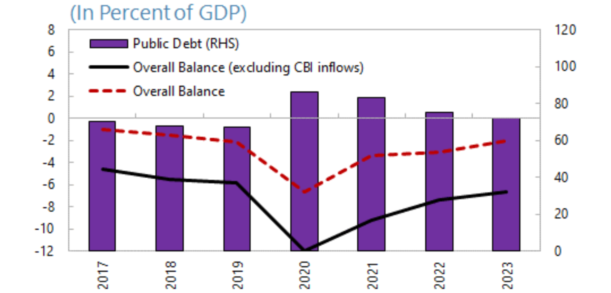
4. Fiscal positions improved, but public debt remains high. The output recovery, high inflation, and the withdrawal of most of the fiscal measures to ease living conditions[5] implemented during 2020-22 narrowed the ECCU's overall fiscal deficit from 3.4 percent of GDP in 2021 to an estimated 2.1 percent in 2023.[6] Overall ECCU public debt is estimated to have declined from 82.9 percent of GDP in 2021 to 72.2 percent of GDP in 2023, still well above peer averages and the 60 percent of GDP debt ceiling committed to by 2035.

[4] More than 80 percent of the increase in the CPI in 2022 can be attributed to global factors, according to a principal component analysis, with falling global food and energy prices contributing to downward price pressures in 2023.

[5] This includes pandemic-related measures for all ECCU countries and government social and rehabilitation expenditures in St. Vincent and the Grenadines after the 2021 volcanic eruptions.

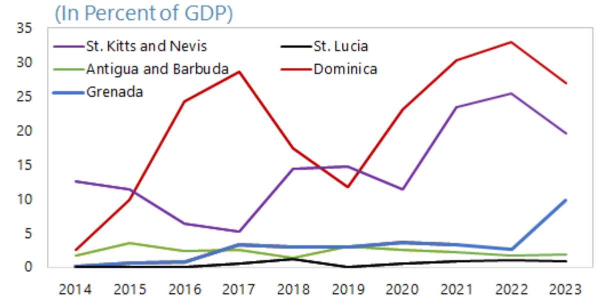
[6] The overall underlying deficit (excluding CBI revenue) had a similar trend, narrowing from 9¼ percent of GDP in 2021 to an estimated 6¾ percent in 2023.

Fiscal Indicators
(In Percent of GDP)



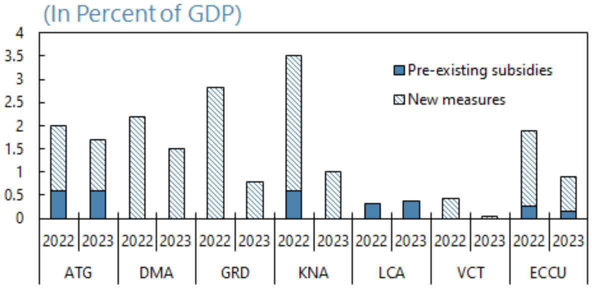
Sources: ECCB and IMF staff calculations.

CBI Revenues
(In Percent of GDP)



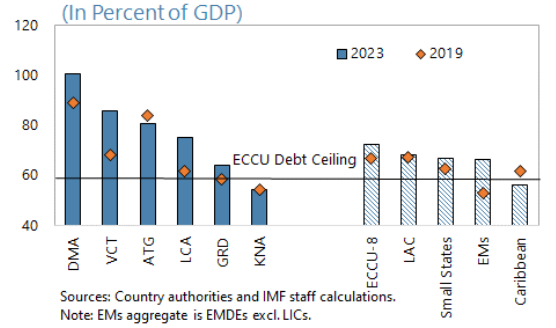
Sources: Country authorities; and IMF staff estimates.

Fiscal Measures for Cost-of-Living Crisis
(In Percent of GDP)



Sources: Country authorities; and IMF staff calculations.

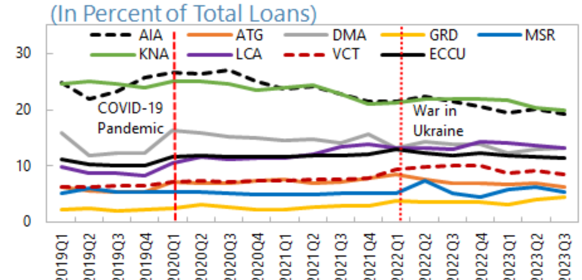
Public Debt
(In Percent of GDP)



Sources: Country authorities and IMF staff calculations.
Note: EMs aggregate is EMDEs excl. LICs.

5. Build-up of already-high financial system liquidity has continued amidst slow credit growth and weak asset quality.[7] A few banks have directed excess liquidity to overseas investments; yet there has so far been no large-scale rebalancing toward the higher yields offered by safe international assets. Bank private sector credit growth remains anemic as banks maintain conservative risk-tolerance amidst a limited pool of bankable projects.[8] On the other hand, rapid lending expansion by credit unions has resumed from pandemic lows to 12 percent y/y in 2022. Bank and credit union NPLs remain elevated but have not materially spiked despite the large economic shocks.

Asset Quality: NPL Ratio
(In Percent of Total Loans)



Sources: ECCB MFS; and IMF staff calculations.

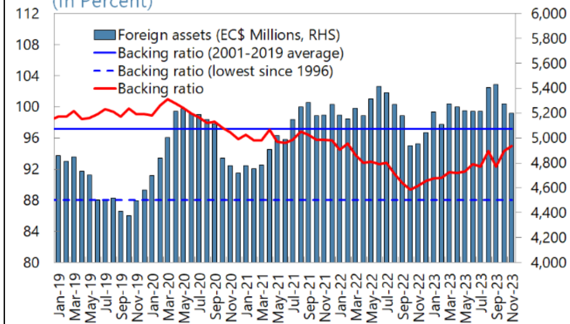
6. The ECCU's external imbalances remain large, although the currency backing ratio remains high. The ECCU current account deficit remained high at 13.2 percent of GDP in 2022 (19.1 percent in 2020-21), with gradual narrowing from the tourism exports recovery in part offset by

[7] The increase in liquidity has been underpinned by continued deposit growth, although the pace has slowed since mid-2023. At 2023Q3, liquid assets amounted to 39 percent of total assets.

[8] Some banks are nonetheless engaging more in syndicated lending for larger projects following reduced regional presence of the Canadian banking groups.

higher goods import costs.[9] Based on staff's 2023 estimates, the ECCU's overall external position is assessed as weaker than the level implied by fundamentals and desirable policies (Annex III).[10] Nonetheless, ECCB's international reserves remain stable and the currency backing ratio high at 95 percent.[11] The real effective exchange rate remains in line with its long-term average, with stronger trading partner inflation offsetting the impact of recent nominal exchange rate appreciation of the US$, to which the regional currency is pegged.

ECCB Currency Board Backing Ratio 1/
(In Percent)

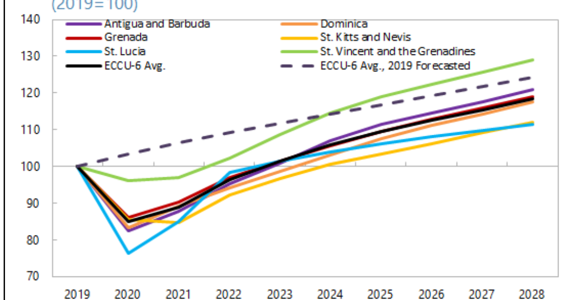


Sources: ECCB; and IMF staff calculations.
1/ Defined as foreign assets divided by demand liabilities.

OUTLOOK AND RISKS

7. **With output largely recovering to pre-pandemic levels, growth is projected to decelerate towards the pre-pandemic average in the medium term.** The slowdown reflects countries approaching full export and production capacity, and continued restoration of public and private balance sheets. Tighter global financial conditions may also weigh on tourism demand. Output levels in most ECCU countries have reached pre-pandemic levels but are not expected to fully close the gap relative to the pre-pandemic output forecast, implying permanent output losses. Inflation is projected to moderate gradually in line with international trends and stabilize at around 2 percent by 2025.

Real GDP Index
(2019=100)



Sources: *World Economic Outlook* database and IMF staff calculations.

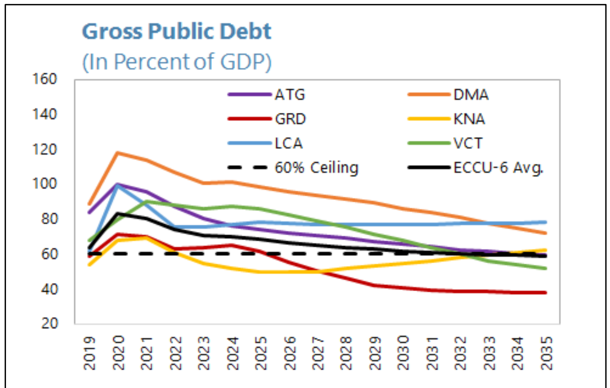
8. **Fiscal balances are projected to gradually improve in the medium term, but public debt will remain elevated in some countries.** The overall fiscal deficit (net of CBI revenues) is expected to fall from an estimated 6¾ percent in 2023 to about 3 percent of GDP by 2028, partly reflecting the phasing out of remaining temporary fiscal measures. Accordingly, the ECCU-6's public debt-to-GDP

[9] The ECCB published revised historical external sector data in January 2024, resulting in sizeable current account revisions in some member countries (in a few cases more than 5 percent of GDP in 2021-22). The current account dynamics are also highly divergent across the ECCU, reflecting unevenness in the speed of tourism rebound as well as scale of ongoing import-intensive capital investments.

[10] The assessment is subject to a wide margin of error given that it is based on staff estimates relying on limited and preliminary data for external accounts and other macroeconomic indicators.

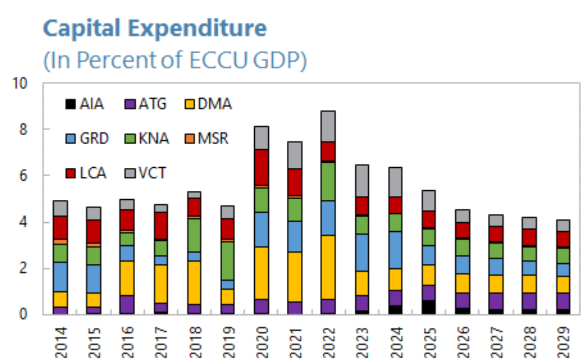
[11] The backing ratio, defined as the ratio of foreign assets to demand liabilities at the ECCB, is used as a key indicator to monitor the strength of the quasi-currency board. Under the ECCB Agreement Act (1983), the ECCB must keep the backing ratio at minimum at 60 percent, but it operationally targets a floor of 80 percent.

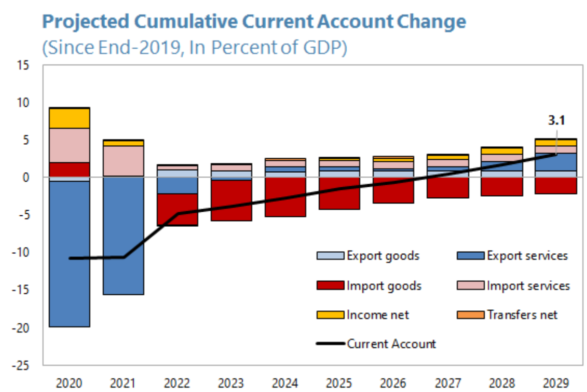
ratio is projected to decline over the medium term towards the regional debt ceiling, but with some countries projected to remain above the ceiling by 2035.[12]



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

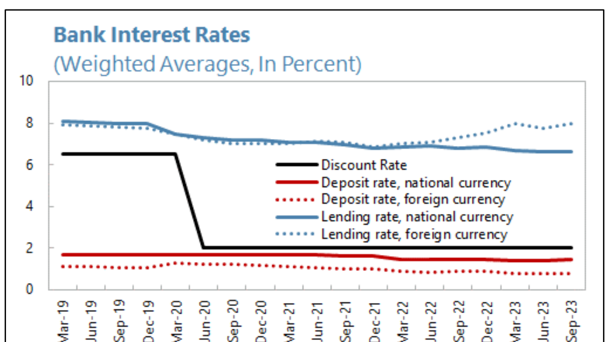
9. High current account deficits are projected to narrow as pressures from import-intensive capital investment abate.[13] The projection is predicated on continued strong tourism receipts, including completion of the post-pandemic recovery in countries where this has been lagging and accounting for the ongoing expansion of hotel capacity in few countries.





Sources: ECCB; and IMF staff calculations.

10. Risks to the outlook are tilted to the downside. The outlook for growth and fiscal and external balances is heavily dependent on uncertain CBI inflows that remain under heightened international scrutiny. The ECCU economies are also highly susceptible to global risks that can trigger a slowdown in tourism source countries (see Annex II) and commodity price volatility. An increase in global systemic financial instability or deepening of geo-economic fragmentation could adversely affect so-far stable FDI inflows. Relatively higher advanced economy interest rates amid high global economic uncertainty can further fuel rebalancing of bank assets to



Source: ECCB.

[12] There has been a recent surge in project financing agreements with the Saudi Fund for Development, totaling US$360 million (equivalent to 4 percent of 2023 GDP) for ECCU-6. The loans are largely concessional and with maturities of over 20 years and grace periods of over 5 years. The planned projects vary by country and are in the areas of resilience building, education, healthcare, and energy.

[13] The baseline projection incorporates a gradual reduction in government capital expenditure upon completion of known public infrastructure projects as well as moderation in private construction associated with recently elevated Citizenship-by-Investment program receipts.

overseas investments, although other transmission channels to regional interest rates are weak due to limited interconnections to global markets.[14] These shocks could be amplified by weaknesses in the local financial system, particularly rising risks in the non-bank financial sector. Natural disasters are a recurrent threat to the region with potentially devastating impact.

POLICIES TO FOSTER HIGHER SUSTAINABLE AND INCLUSIVE GROWTH

With GDP having surpassed the pre-pandemic level, economic policies should be re-oriented to addressing structural constraints both to increase sustainable growth and reduce fiscal and external imbalances to help safeguard the currency union arrangement.[15] Policy priorities include (i) protecting macroeconomic stability and fiscal space for growth-enhancing physical and social investments; (ii) strengthening financial sector balance sheets and oversight and supporting local private sector development and investment; and (iii) implementing social policies and labor market reforms to address structural constraints to employment and labor productivity while protecting the most vulnerable. Strengthening data collection, quality, and transparency would help inform well-calibrated policy design.

A. Protecting Fiscal Space for Social Spending and Public Investment within Public Debt Sustainability Bounds

11. Rebuilding buffers and protecting fiscal space for investment can be supported by a range of measures and institutional reforms. Amid slowing growth and elevated risks, a steady reduction in public debt in countries where it is above the regional ceiling is critical to maintain macro stability. The reduction in currently high fiscal and external imbalances would also help safeguard the currency board, which has proven crucial to navigate the severe shocks in recent years.[16] These efforts should aim to protect growth-friendly investment like resilience building and social outlays in health, education, and protection for the most vulnerable. Key policy recommendations that, to different degrees, apply to all ECCU countries are as follows:

- ***Adopt common regional standards for fiscal rules***. Building on the existing regional public debt ceiling and the success of countries with national fiscal responsibility frameworks (FRFs),

[14] The ECCU sovereigns and other entities have limited international market access and non-resident deposits are modest. Over time, persistent interest differentials may place pressure on regional interest rates, raising so-far stable sovereign and private borrowing costs and weakening the ECCB's reserve position, especially if combined with disruptions to external financing inflows. At the current juncture, high banking system liquidity alleviates pressures on regional rates.

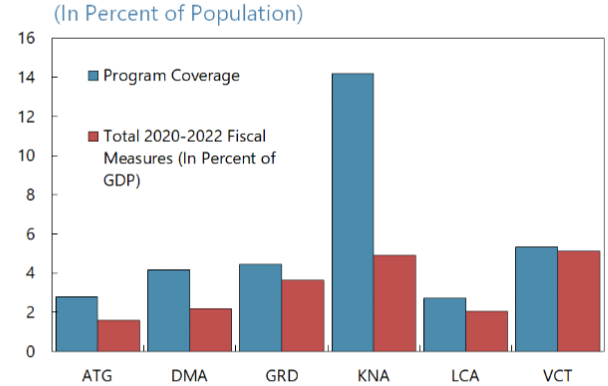
[15] The policy discussion builds on past policy advice from the 2022 common policies discussion (Annex I). The implementation of most recommendations is ongoing, with some progress achieved in the domain of climate resilience and competitiveness.

[16] The ECCU's quasi-currency board arrangement requires clear national fiscal plans and buffers to cushion shocks and safeguard fiscal sustainability, given the limited regional circuit-breakers in the form of ECCB credit allocations. Fiscal sustainability also plays a key role in securing continued external financing, including from donors and IFIs, for infrastructure and resilience-building investments.

ECCU-wide adoption of national FRFs, designed with well-defined country-specific operational rules and calibrated to deliver a consistent decline in debt would strengthen prospects for reaching the regional public debt ceiling of 60 percent of GDP by 2035. The calibration should include a cushion to provide fiscal space to respond to shocks, complemented by other elements in each member country's disaster risk financing strategy.[17] Escape clauses would allow the transitory suspension of the rules in case of extreme events.[18] Combinations of specific rules could help protect or add fiscal space for public investment.[19] Operationalizing regular ECCB Monetary Council peer reviews of member states' policy strategies and progress toward meeting the regional debt target would help strengthen fiscal discipline.

- ***Improve the targeting of social assistance*** (Annex V)**.** Although countries have unwound most crisis-response measures critical to support vulnerable households, the potential demand for social protection remains high given frequent shocks. Improved targeting is needed to increase spending efficiency while supporting those in need. This requires better social and economic data to track social conditions and employment, and provide an accurate record of beneficiaries, including by developing a social registry of vulnerable households.

COVID-19 Social Assistance Program Coverage
(In Percent of Population)



Sources: Country authorities, UNICEF, World Bank, and IMF staff calculations.

- ***Revive [the regional initiative] to streamline tax exemptions with common benchmarks.*** ECCU countries have long resorted to tax exemptions to attract investment in strategic sectors, especially in tourism. This practice has led to significant revenue loss, including by incentivizing a regional "race to the bottom" in taxation. The ECCU could establish a regional framework including a minimum taxation of investment, which could increase revenue, reduce regressivity, and avoid discretionary exemptions that undermine the business environment. Regional Corporate Income Tax (CIT) incentives could be aligned with OECD Pillar II implementation rules and its instruments. Bilateral tax agreements granting CIT holidays could be replaced with regular input-based CIT incentives.[20]

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[17] The layered risk financing strategy can include self-insurance funds, parametric insurance policies (Caribbean Catastrophe Risk Insurance Facility), disaster clauses in debt securities and access to grants conditional on disasters. See 2022 ECCU Regional Consultation Report, IMF Country Report No. 2022/253 and IMF Country Report No. 19/63.

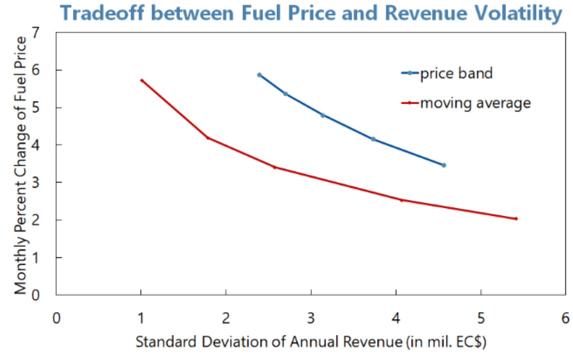
[18] Prespecifying the process to return to the rule after an escape clause has been triggered would help preserve the credibility of the FRFs.

[19] For example, a recurrent expenditure ceiling and a recurrent fiscal balance floor would help contain procyclical recurrent spending, a historical occurrence in the ECCU, which would provide fiscal savings during booms that could be allocated to reduce debt or to support public investment. 0FThe recurrent spending ceiling would also narrow the range of uncertainty about future of debt dynamics, thus reducing the size of the required cushion and easing access to financing by strengthening debt sustainability.

[20] For example, the higher expensing of capital investment, investment tax credits, and longer loss carry-forward.

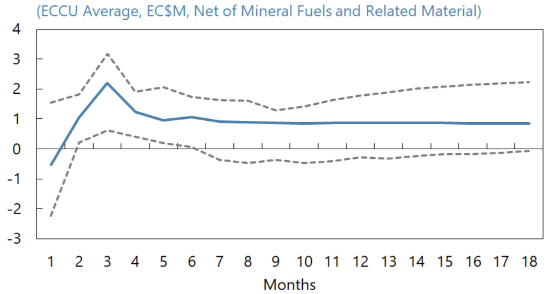
- ***Adopt fuel price pass-through frameworks to protect tax revenue and stabilize demand*** (Annex VI). During the spike in oil prices in 2022, ECCU countries took measures to contain the social impact of higher energy prices at a significant fiscal cost. Fuel price pass-through rules would smooth domestic energy prices, supported by effective compensatory measures for vulnerable households. If carefully calibrated, they would maintain budget cost neutrality over oil price cycles and promote green transformation, while cushioning their economic impact.[21]

Tradeoff between Fuel Price and Revenue Volatility



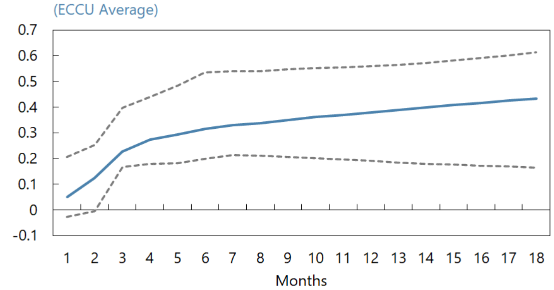
Sources: Data from authorities and staff calculations.
Note: The chart depicts the average of Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent an the Grenadines.

Impulse Response Function of Imports
(ECCU Average, EC$M, Net of Mineral Fuels and Related Material)



Source: WEO GAS, ECCU Economic Statistics, and IMF staff calculations.
Note: Cholesky 1 standard deviation (d.f. adjusted) innovation of world crude oil price. The solid line depicts the average of ATG, DMA, GRD, KNA, LCA, and VCT. The dashed lines depict the minimum and the maximum.

Impulse Response Function of CPI
(ECCU Average)



Source: WEO GAS; ECCU Economic Statistics; and IMF staff calculations.
Note: Cholesky 1 standard deviation (d.f. adjusted) innovation of world crude oil price. The solid line depicts the average of ATG, DMA, GRD, KNA, LCA, and VCT. The dashed lines depict the minimum and the maximum.

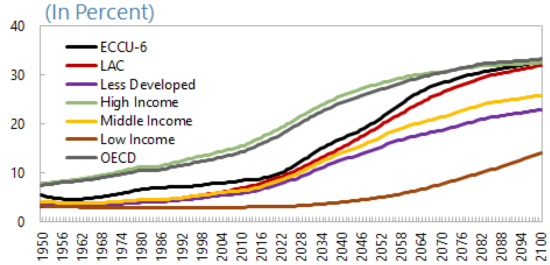
- ***Pass comprehensive reforms to improve the sustainability, fairness, and efficiency of pension systems*** (*Selected Issues*, Chapter 1)**.** Despite some reform efforts, the financial sustainability of the defined benefit social security schemes remains under strain, reflecting low contributions, generous payouts, and an aging population.[22] This presents significant contingent liabilities, as governments may have to cover pension shortfalls with higher taxes and lower investment or otherwise risk abrupt and disorderly adjustments of the pension system. Early adoption of further comprehensive pension reforms would reduce the size of required adjustments and inter-generational inequality. Staff's benchmarking analysis suggests ample

[21] Sustainability of fuel-related revenues in the long term is achieved with containment of fuel tax reductions when international oil prices are low. Implementation may require a fuel price stabilization fund. Fuel taxes could be increased further to help reach carbon emission reduction commitments and to increase revenue which could be used to finance well-designed social transfers to mitigate the impact on the poor.

[22] The pandemic lowered contribution growth and led to higher benefits payments by the national social security administrations, including due to the temporary unemployment insurance scheme, sickness benefits related to Covid-19 cases, and rising numbers of early retirees.

scope to improve the efficiency, fairness, and sustainability of pension schemes through comprehensive reform packages that address design weaknesses.

Share of Population Ages 65+
(In Percent)



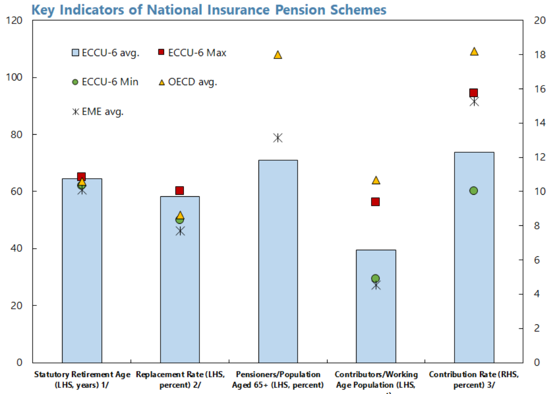
Sources: UN Populations Projections; and IMF staff calculations.

Financial Positions of National Insurance Schemes

	Year established	Year Expenditures Surpass Contribution Income	Year Expenditures Surpass Total Income	Year When Reserves Are Exhausted
Antigua and Barbuda	1973	2022	2028	2035
Dominica	1976	2021	2051	2063
Grenada	1983	2016	2022	2053
St. Kitts and Nevis	1978	2015	2024	2040
St. Lucia	1979	2018	2035	2051
St. Vincent and the Grenadines	1987	2016	2021	2060

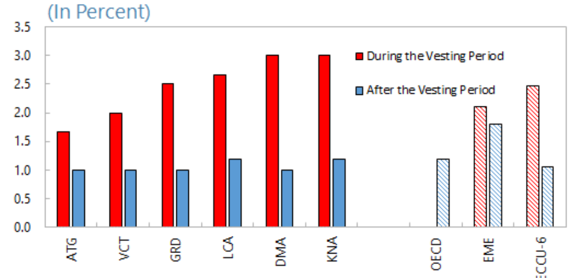
Sources: Country authorities; and IMF staff calculations.

Key Indicators of National Insurance Pension Schemes



Sources: Country authorities; World Bank; UN Population projection; Expenditure Assessment Tool; and IMF staff calculations.
1/ ATG, GRD and VCT are ages after ongoing reforms. ATG, DMA, LCA, and VCT allow early retirements as early as 55 or 60 under the national insurance schemes. Statuary retirement ages under the public sector pension schemes (PSPS) for DMA, GRD, KNA, and VCT are lower, ranging from 50 to 60.
2/ Some public sector workers in ATG, GRD, KNA, and VCT are entitled for additional pensions from the separate PSPSs, with total effective replacement rate reaching up to 127 percent.
3/ ATG, DMA, and GRD are rates after ongoing reforms are fully phased in.

Accrual Rate
(In Percent)



Note: the accural rate after the vesting period for KNA is s a weighted average of 2 percent for the first five years after the vesting period and 1 percent for the rest of the career.
Source: Country authorities; World Bank Pension Dataset; *Pension Systems in the Developing World*; *Pensions at a glance 2021 OECD and G20 Indicators*; and IMF staff calculations.
Note: Data for OECD is based on 9 countries with constant accural rate. ATG and VCT after ongoing reforms.

- ***Adopt common CBI program standards.***[23] Building on the landmark 2023 U.S.-Caribbean Roundtable Agreement, countries could further deepen regional cooperation, where common due diligence, transparency, and disclosure standards would help safeguard the programs. A regional CBI framework could also include (i) minimum pricing benchmarks to avoid a revenue-erosive race-to-the-bottom competition; and (ii) common principles on revenue allocation towards building fiscal buffers and growth-enhancing investment.

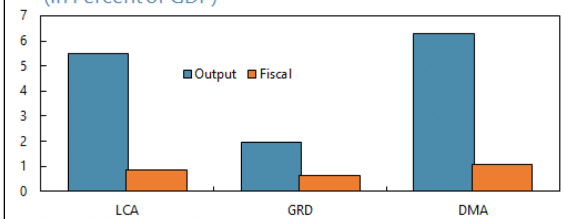
- ***Develop regional capacity to increase access to climate finance.*** Staff analysis indicates that disaster-resilient public investments would strengthen debt sustainability.[24] Pooling of regional resources and expertise can help reduce impediments and costs to access international climate

[23] There are five Caribbean countries that operate CBI programs: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, and St. Lucia.

[24] Output declines and the recovery periods after natural disasters are reduced with resilient infrastructure. In addition, the output level is higher in the long term due to higher investment and employment—the return on private investment is less likely to be lost in case of a natural disaster when private and public infrastructure are resilient. The higher output leads to an improvement in tax revenue that outweighs the additional cost of resilient infrastructure.

finance.[25] To this end, a data bank and a pipeline of climate projects, green tagged in the countries' annual budgets, would facilitate the process and better integrate climate into public investment management. Collateralization of green bonds and loans with official creditors or bilateral guarantees could help reduce the financing cost. The ECCB in partnership with the World Bank is also exploring the creation of a Renewable Energy Infrastructure Investment Facility (REIIF) for the ECCU region to improve regional access to project financing and bolster country level implementation.

Estimated Long Term Annual Return of Investment in Infrastructure Resilient to Natural Disasters
(In Percent of GDP)



Source: Staff estimates based on authorities data. The results are based on dynamic stochastic general equilibrium simulations using the model in Fernandez-Corugedo, Gonzalez-Gomez and Guerson (2022) for 80 percent of public investment resiliency.

Measures for a Comprehensive Pension Reform

Contribution and Other Income

- Increase contribution rates to closer to EM and OECD averages (16 and 18 percent)
- Make self-employed contributions to National Insurance Schemes (NIS) mandatory and improve compliance
- Improve investment strategy, including by diversifying away from domestic risks

Benefits

- Reduce replacement rate to closer to OECD and EM averages (52 and 46 percent)
- Apply a uniform accrual rate (e.g., closer to OECD's 1.2 percent) across all years of service to incentivize long careers
- Close public sector pension scheme (PSPS) to new entrants expeditiously and align and merge PSPS with NIS
- Change reference wage to mirror career average
- Refrain from pension increases over the medium-term and thereafter replace ad hoc adjustments with annual adjustment in line with inflation

Retirement Age

- Eliminate/tighten early retirement and align retirement age for civil servants under PSPS with NIS
- Increase retirement age to 65 in KNA (and others with reform still phasing in could consider faster implementation)
- Link retirement age to life expectancy for all ECCU-6

Administrative Efficiency and Others

- Improve administrative efficiency
- Improve transparency and establish automatic adjustment mechanism/stabilizers in the Pension Acts, e.g., contribution rate increase or benefit cuts when reserves are projected to be depleted within certain number of years

- ***Other fiscal institutional reforms are also key to underpin fiscal efforts and enhance financing conditions,*** including improving budget processes and cash and debt management; strengthening tax administration, the role of fiscal councils, and state-owned enterprise

[25] Countries in the region could take advantage of economies of scale in green/blue bond issuance with pooling of regional projects with common objectives.

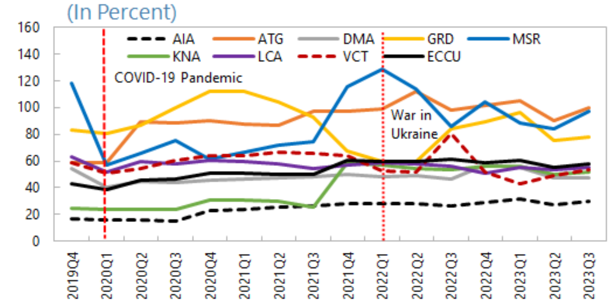
oversight; and enhancing medium-term fiscal frameworks and the management of fiscal risks and public investment.

B. Strengthening Financial System Balance Sheets and Maintaining Regulation Reform Momentum

12. The financial system has weathered the pandemic relatively well but confronts long-standing balance sheet challenges and rising risks in the non-bank financial sector. Asset quality weaknesses remain the predominant financial stability risk to the system, particularly among rapidly expanding credit unions subject to uneven and less-stringent oversight and regulations. Combined with persistent structural impediments to impaired asset disposal and credit provision, as well as emerging risks to private insurance affordability, these weaknesses continue to impede the sector's ability to support private sector investment and growth.

13. Enforcing prudent provisioning requirements remains key to reducing elevated NPLs. The phased implementation of ECCB's impaired asset standard requires banks to fully provision for long-overdue loans in 2025, representing an important opportunity to turn the page on persistently elevated bank NPLs.[26] All loan-loss allowances should be made in the form of provisions to ensure banks' capital strength is appropriately recorded.[27]

Provisions and Reserves to NPLs
(In Percent)



Sources: ECCB BBB and IMF staff calculations.

Similar provisioning standards, alongside appropriate classification of restructured loans, should also be adopted for credit unions, and a few national supervisors have moved toward doing so.[28] Streamlining costly foreclosure and collateral sale processes and strengthening the capacity of the Eastern Caribbean Asset Management Company would facilitate disposal of impaired assets. Risk management of foreign security investments and high local sovereign exposures among some banks warrant continued supervisory focus.

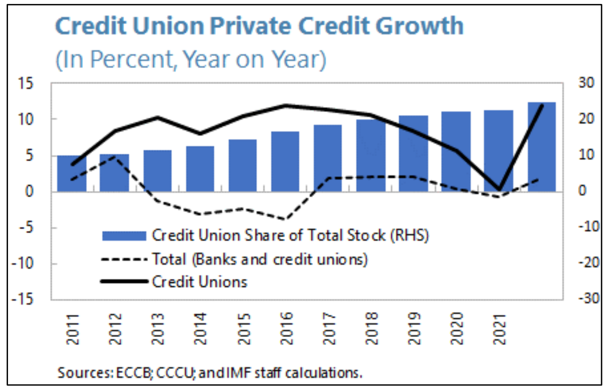
14. Credit union oversight should be stepped up to match growing systemic risks (Annex VII)**.** Continued expansion in small, contained markets risks giving rise to more aggressive and unsustainable yield-seeking behavior. The immediate policy priority is to ensure that all national

[26] Long-overdue loans comprise the bulk of total bank NPLs and have been a persistent challenge in the ECCU. NPL resolution has been impeded by the absence of sale opportunities, legislative constraints to foreclosure and collateral sales in some jurisdictions, as well as lack of liquidity in property market.

[27] Where the ECCB regulatory provisioning requirements have exceeded those under the accounting standards, some banks have maintained the additional allowance in a reserve recorded as part of their regulatory capital.

[28] Credit union provisioning requirement is typically recorded net of loan collateral, even where realization of the collateral value is often impeded by structural constraints to foreclosure and sale, including illiquid property markets. While classification of restructured loans for banks is guided by the ECCB impaired asset standard, in some jurisdictions restructured credit union loans have been permitted to be classified immediately as performing, potentially masking underlying vulnerabilities in borrower repayment capacity.

supervisors have adequate powers, staffing capacity, and data to ensure sound underwriting and risk management practices. Enforcement of timely corrective actions, where necessary, is critical given the absence of financial safety nets and challenges to crisis resolution.[29] This can be supported by requiring high-risk credit unions to submit credible time-bound plans for strengthened provisioning, NPL reduction, and capital restoration with monitorable implementation targets.



15. Climate risks emanating through the general insurance sector warrant strengthened monitoring. ECCU property insurance premiums have risen over the past year given pressure from increased reinsurance costs.[30] As global reinsurers' assessment of climate risks evolves, weakened insurance affordability can adversely affect borrower repayment capacity, give rise to underinsured assets, and ultimately weaken credit growth, investment, and resilience. The potential dampening effect on economic activity and amplification of indirect transmission channels of natural disasters can be particularly acute in small island states, where affordability challenges impact a large share of the population and the economies' small scale and underdeveloped capital markets limit risk mitigation options.[31] This underscores the need to strengthen insurance sector data collection and regional supervisory cooperation. Deeper assessment of insurance-banking interlinkages would help inform ongoing efforts to integrate climate change risks in the authorities' supervisory and stress testing frameworks and support the management of system-wide risks.

16. The establishment of a regional standards setting body (RSSB) needs to be pursued expeditiously, but the end goal should be a more centralized ECCU-wide oversight framework. In addition to establishing common minimum regulatory standards for non-bank financial institutions (NBFIs), the rapid growth of open-platform credit unions calls for closer alignment of their regulations and supervisory standards with banks to mitigate rising arbitrage risks. Centralization of the currently fragmented and uneven NBFI supervision under a model that leverages national supervisors' local presence and expertise would improve its resource efficiency, support early identification of vulnerabilities, and further move the ECCU region toward a unified financial space.

[29] Credit unions currently have no deposit insurance or emergency liquidity arrangements, although the latter is being considered under auspices of the Caribbean Confederation of Credit Unions. Credit union resolution options would be in part limited by membership-based ownership structures.

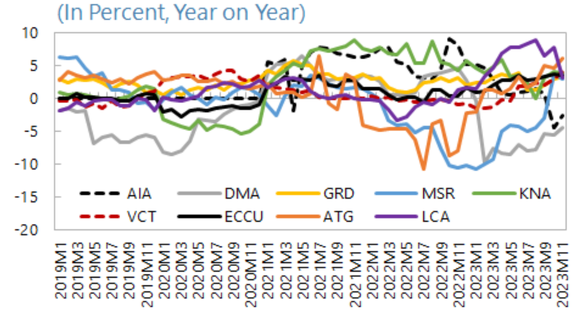
[30] Property reinsurance costs typically pass through to local premiums given local retail insurers' limited capacity to retain the liability risk. Available data on the scale of the increases precludes a precise assessment, but anecdotally premium increases were typically in the range of 15-25 percent, albeit reaching nearly 50 percent in some properties.

[31] Widespread private sector under-insurance can also amplify fiscal contingent liability risks of natural disasters.

17. Better coordinated financial sector reforms can support ongoing efforts to support private investment, credit, and local enterprise development. Operationalization of the credit reporting bureau across both banks and credit unions can over time significantly improve efficiency and quality of credit provision. The Eastern Caribbean Partial Credit Guarantee Scheme is aiming to address limited uptake by banks and SMEs, which alongside movable collateral frameworks can help ease credit access. These measures would benefit from complementary supporting programs to strengthen small-business record-keeping, business planning, and financial literacy, where the national authorities can also play an important role. Parallel reforms to strengthen insolvency frameworks and creditor rights would reduce cost-disincentives to lending. These efforts could be coordinated with a renewed focus on regional capital market development, launching investor and borrower education initiatives, completing the related pending legislative processes in all jurisdictions and reviewing whether the 2 percent minimum savings rate may hinder development of a more active retail investor base and raise cost barriers to the development of alternative investment assets.[32]

Bank Credit to the Private Sector

(In Percent, Year on Year)



Sources: ECCB MFS; and IMF staff calculations.

18. Strengthening supervisory resources would support continued advancement of the financial system reform agenda. The authorities have made important progress clearing a backlog of financial sector legislative initiatives and advancing the modernization of regulations and supervisory processes (Text Table 1). The rollout of the Basel II/III prudential standards and the formalization of ECCB's system-wide oversight authority will support the stability of the ECCU financial system, but also place additional demand on limited supervisory resources. The capacity of the national supervisors also needs to be aligned with the NBFIs' increasing systemic significance, while the RSSB introduction needs to be mindful of the current resource constraints. A regional bank deposit insurance system would fill a gap in current financial system safety nets. However, it is important to align its introduction with parallel progress in reducing legacy bank vulnerabilities. Its extension to credit unions should be considered only under a more unified oversight framework for all deposit taking institutions. The next phase of the ECCB's central bank digital currency (CBDC), DCash, should carefully review the lessons from its recently concluded pilot, including assessing its potential to complement other existing and emerging payment solutions and ensuring interoperability across domestic platforms (Box 1).

[32] The ECCB is exploring reform options to expand the limited retail investor space in the Regional Government Securities Market (RGSM) with the support of Fund technical assistance.

Text Table 1. Status of Existing Legislative Acts

Item	AIA	ATG	DMA	GRD	MSR	KNA	LCA	VCT
Amendment to the ECCB Agreement Act, 1983	X	X	X	X	X	X	X	X
Amendments to the Banking Act	X	X	X	X	X	X		X
Banking (Licenses) Regulations, 2018	X	X	X	X	X	X	X	X
Banking (Abandoned Property) Regulations	X	X	X	X	X	X	X	X
Amendments to Payment System Rules, 2021	X	X		X	X	X	X	X
Amendments to AML/CFT Legislation		X	X	X	X		X	X
Credit Reporting Bill	X	X	X	X	X	X	X	X
Credit Reporting Regulations	X	X	X	X	X	X		X
Virtual Asset Business Bill	-	X	X	X	X	X	X	X
Securities Bill		X		X	X	X		X
ECCU Investment Funds Bill		X		X	X			X
ECSRC Agreement Bill		X		X	X		X	X

AIA: Anguilla; ATG: Antigua and Barbuda; DMA: Dominica; GRD: Grenada; MSR: Montserrat; KNA: St. Kitts and Nevis; LCA: St. Lucia; VCT: St. Vincent and the Grenadines.

Note: The Xs indicate that the legislation was passed by the legislatures of those jurisdictions. The AMF/CFT Amendments are not relevant to VCT as, under its Anti Money Laundering and Terrorism Financing Regulations issued under the Proceeds of Crimes Act 2013, the Central Bank was already named as the AML/CFT supervisory authority. AIA has passed its own Digital Asset Business Act 2023 to govern the sector instead of the Virtual Asset Business Bill.

Box 1. The Future of CBDC in the Eastern Caribbean

The ECCB has recently wrapped up its CBDC pilot launched in March 2021, paving the way for a commercial release of DCash 2.0. With the pilot phase over and users having cashed out in January 2024, the ECCB is now soliciting technical proposals to overhaul DCash 2.0's technology framework. This next phase includes an 18–24-month testing period to ensure the system's reliability and efficiency.

The DCash pilot, including the early 2022 outage, highlighted the importance of operational resilience and promotion efforts. Analyzing DCash data and identifying new risks are critical for guiding the ECCB and other central banks moving forward with CBDCs. The initially slow public uptake of DCash picked up over 2023 with more concerted marketing campaigns, although peak users covered only a small fraction of the population.

DCash 2.0 aims to offer improved features and enable use through digital wallets offered by private financial institutions. This collaboration with the private sector and interoperability within the domestic payment network are crucial for fostering a harmonious and competitive payment ecosystem, enriching the user experience, and facilitating potential integration with international payment systems. Developing GovTech, e-commerce, and Fintech services compatible with DCash 2.0 can further support its usage.

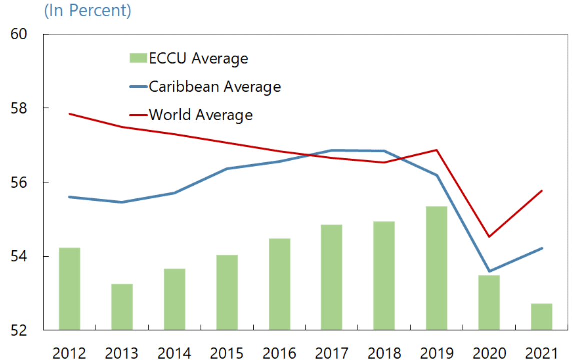
19. Continued strengthening of AML/CFT frameworks remains of particular importance amidst the scrutiny of CBI programs. It would more generally help address perceptions of regional risk and protect the thin correspondent banking relationships. Priorities include addressing the Caribbean Financial Action Task Force (CFATF) Mutual Evaluation recommendations and completing long-pending designation of the ECCB as the AML/CFT supervisor for banks in Anguilla and St. Kitts and Nevis. [33]

20. The ECCB has taken steps to address most of the 2021 safeguards recommendations, particularly in the area of risk management. However, there remains scope to strengthen governance arrangements, including through legal reforms to further strengthen the operational autonomy of the ECCB and align its Agreement Act with leading practices. The related safeguards recommendation remains pending.

C. Addressing Constraints to Employment

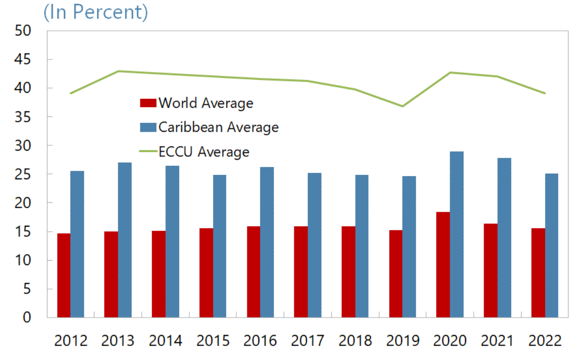
21. A well-functioning labor market with skills attuned to economic needs is critical for growth, but frictions persist within the Caribbean (*Selected Issues,* Chapter 2)**.** Regional growth has steadily decelerated from an average of 3¾ percent during 2000-08 to 1 percent in the decade before the pandemic, largely reflecting shrinking total factor productivity and weakening contributions from labor and human capital.[34] This persistent deterioration in competitiveness has contributed to the build-up of large external imbalances. Longstanding structural weaknesses in ECCU labor markets have contributed to this trend, including rigidities in hiring/firing, a high level of informality, limited economic diversification, emigration of skilled workers, and skills mismatches and sectoral shortages. Together, these have contributed to relatively poor outturns in terms of labor force participation and elevated unemployment, particularly among youths.

Employment to Population Ratio
(In Percent)



Source: World Bank Global Development Indicators database and Staff Calculations.

Youth Unemployment
(In Percent)



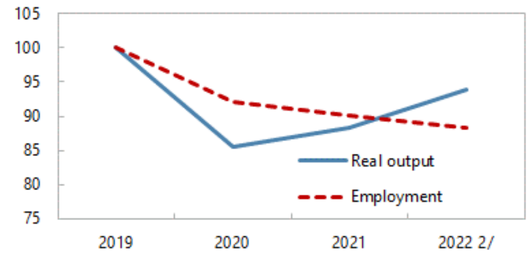
Source: World Bank Global Development Indicators database and Staff Calculations.

[33] While the ECCB currently joins AML/CFT supervisory reviews in ECCU jurisdictions other than Anguilla and St. Kitts and Nevis, the national non-bank regulators currently remain the legal authority.

[34] Eastern Caribbean Currency Union—Selected Issues (June 2017), IMF Country Report No. 17/151.

22. Scarring from the pandemic has potentially compounded these challenges. The recovery in employment appears to be lagging the generalized recovery in economic activity that began in 2021.[35] Available data indicate that there has been a jump in both male and female youth who are not in employment, education, or training (NEET) since the pandemic. Employers in the region note difficulties in finding skilled workers due to a combination of emigration and skill mismatches.

Real Output and Formal Employment[1/]
(2019=100)



Sources: Social insurance data and IMF staff calculations.
1/ Excludes LCA due to lack of social insurance data.
2/ Based on ATG and GRD only.

23. Addressing these labor market frictions and improving outcomes requires a multipronged effort. Reforms to key labor market institutions, such as employment protection legislation (EPL), a recalibration of minimum wages, and addressing skills mismatches are critical to boost labor efficiency and productivity:

- ***Labor market institutions***: Like many emerging market and developing countries (EMDCs), ECCU countries favor employment protection legislation (EPL)—where the employer bears administrative and transfer costs—over targeted unemployment insurance (UI) schemes. Unduly generous employment protections, including burdensome dismissal processes and costly severance payments, can negatively impact the efficient turnover of labor, disincentivize additional hiring (particularly at times of uncertainty), and incentivizes labor informality. IMF analysis suggests that reducing uncertainty about the cost and duration of dismissal procedures might be more important than the level of severance payments, and recommends that the stringency of EPL should be linked to the buildup of the benefit system.[36] Against this backdrop, policymakers are advised to review and recalibrate protection frameworks, particularly as ECCU jurisdictions introduce UI schemes, giving priority to achieving higher employment.[37]

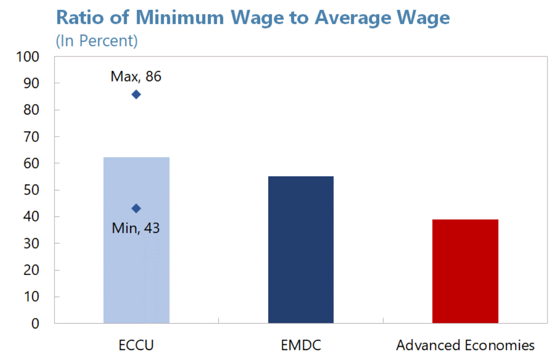
- ***Minimum wages***: The minimum-to-average wage ratio in the formal sector in the ECCU hovers around 60 percent, but with variation across countries ranging between 86 and 43 percent. While comparable to EMDCs on average, empirical studies generally advocate a ratio in the 25-50 percent range, noting that ratios beyond the 40-50 percent range can reduce competitiveness and employment opportunities (particularly of less skilled workers).[38] A recalibration of the minimum-to-average wage ratio may support employment and labor allocation efficiency. Related social costs could be more efficiently addressed with targeted or hybrid-targeted transfers (see above) and with further development of social protection frameworks.

[35] Due to limited data availability in most ECCU countries, employment developments are proxied using data from social security schemes which monitor formal employment by sector, age, and gender.

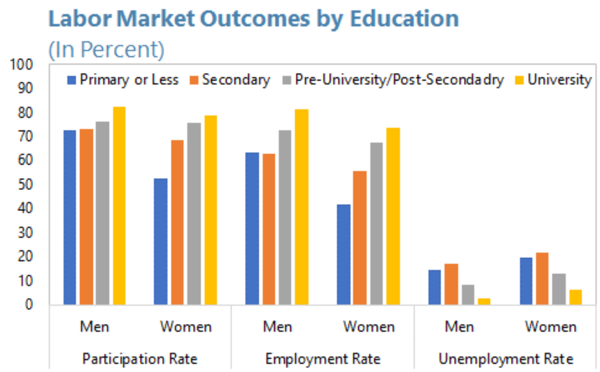
[36] Duval, R. and Loungani P. "Designing Labor Market Institutions in Emerging Market and Developing Economies: Evidence and Policy Options", SDN 19/04.

[37] Grenada is the only ECCU country that offers a permanent UI scheme (effective May 2023). Dominica and St. Vincent and the Grenadines introduced temporary UI during the pandemic. St. Lucia is currently preparing an UI framework, with contributions to ensure its financial sustainability.

[38] Cross-Country Report on Minimum Wages: Selected Issues. IMF Staff Country Reports 2016 (151). Washington, DC: IMF.

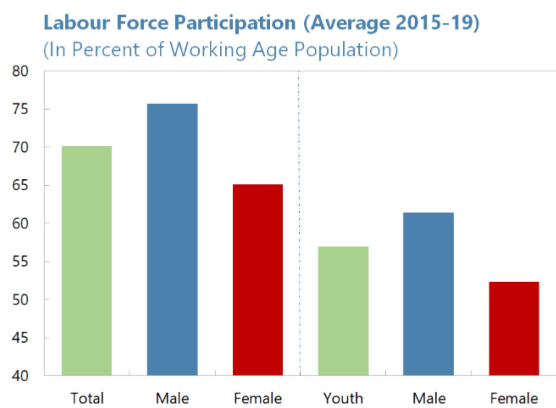


Sources: ILO; OECD; national authorities; and IMF staff calculations.

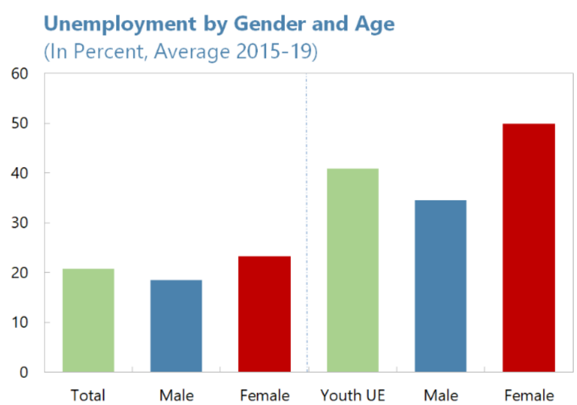


Sources: National authorities; and IMF staff calculations.

- ***Gender and youth gaps***: Unemployment is high, especially among the youth, and female unemployment is higher than male unemployment. Similarly, labor force participation rates are low for female and young workers. Data available for some ECCU countries indicate that child and elderly care needs are linked with lower participation of female workers, while higher education levels are associated with increased participation, particularly among women. Governments could seek assistance from development partners to help improve education attainment—including vocational education and training—to address skill mismatches and promote improved labor outcomes for women and youth. Education programs could be reviewed with a focus on strengthening employability. Social programs could be better tailored within the context of broader fiscal objectives to tackle non-economic barriers to employment, for example, to address low education attainment and school dropouts, which is more acute among boys. More parental and elderly care leave for caregivers could increase participation and level employment opportunities, thus helping to narrow gender salary gaps. These labor market reforms could help address persistent emigration, especially of skilled workers, augmenting their potential growth impact.



Sources: Labor Force Survey; and IMF staff calculations.



Sources: Labor Force Survey; and IMF staff calculations.

D. Strengthening Data Collection and Provision

24. Concerted region-wide efforts to strengthen data collection, processing, and transparency are essential to help improve the calibration of economic policies. Data compiled and disseminated by the ECCB are broadly adequate for surveillance of common policies. However, gaps in key economic areas such as the labor market, private sector balance sheets, and property markets constrain the design of policies to support inclusive growth, efficient use of public resources and contingency plans against external shocks. Notwithstanding some strides in improving external statistics, gaps remain particularly in recording of foreign direct investment. Strengthening private insurance data collection is critical in the face of rising affordability risks. Increasing data transparency in areas such as CBI inflows, tax exemptions, and medium-term fiscal projections would also support more effective regional policy coordination and public accountability. Strengthening resources at national statistics offices would help improve accuracy, timeliness, and frequency of existing economic data, reducing current long lags and frequent revisions to historical series.

AUTHORITIES' VIEWS

25. The authorities expect the ECCU to continue benefitting from a resilient global economy in 2024 after a better-than-expected 2023. This positive growth outlook is further supported by strategic reforms and capital investments that should improve medium-term growth. Upside risks include food and nutrition investments which could help build resilience against future external shocks. In contrast, slower global growth which would negatively impact tourism, as well as geopolitical risks, remain the major sources of downside risks. In particular, shipping disruptions could prolong the fight against inflation.

26. There was consensus on the importance of advancing efforts to create space for resilient growth. The authorities agreed on the importance of improving the targeting of social assistance. There was some interest in adopting fuel-price pass through frameworks to protect revenue and promote green transformation. Generous investment tax incentives were widely acknowledged as a major source of revenue leakage, but policymakers stressed the political challenges for collective action.

27. The authorities concurred with the need for strong fiscal institutions and structural reforms to underpin efforts to restore fiscal buffers. They acknowledged the value of rules-based frameworks to help achieve the regional public debt ceiling; however, views were mixed on the need to establish an ECCU-wide requirement for country-specific operational rules. Some policymakers noted the challenges of reaching the debt target while meeting public capital spending needs to achieve development goals and resilience to natural disasters. Policymakers recognized the risks emanating from partially funded pension systems, and several jurisdictions have just introduced, or are seriously considering, parametric and non-parametric reforms, generally in line with staff advice.

28. The authorities noted recent steps to enhance coordination to mitigate risks to CBI programs, but also emphasized the challenges of more progress in this area. The national authorities of the five CBI countries noted recent steps to strengthen due diligence in line with the principles of the 2023 U.S.-Caribbean Roundtable Agreement and are seeking a similar platform to address concerns of other third-party jurisdictions. These efforts have also given momentum to greater cooperation and information exchange within the network of the CBI units. Some authorities are considering establishing a separate fund to strengthen management of CBI resources. There was also mutual recognition that CBI revenues could be undermined by competitive pricing. While supporting the idea of ongoing efforts to boost regional coordination on CBI issues, some authorities emphasized the importance of safeguarding individual countries' sovereignty over their respective programs.

29. The authorities recognize the need for stepped up NBFI oversight amidst rising risks but remain hesitant to its centralization beyond the proposed RSSB. The ECCB expressed commitment to strengthen provisions in line with the new standard, while the credit bureau will help contain future asset quality risks. There was a shared concern over rising risks posed by the rapid growth of credit unions, although some also consider bank risk appetite rigidly low and credit union underwriting not necessarily weaker than banks. All authorities expressed concerns over emerging risks posed by rising reinsurance costs, and a few national supervisors have already stepped up data collection efforts. There was an emerging consensus to move ahead with the RSSB, although its establishment would still need to go through a legislative process. There was no consensus to centralize NBFI supervision at this time. The authorities nonetheless acknowledged constraints to national supervisors' capacity and saw merit in continuing to strengthen regional cooperation, including with the ECCB. The authorities expressed commitment to continue strengthening AML/CFT frameworks. They also recognized that the proposed deposit insurance scheme needs a level playing field among participating institutions.

30. There was a shared understanding that fostering private sector credit and investment may warrant a more coordinated strategy. A prevalent observation was that addressing small businesses' capacity issues currently relies on fragmented initiatives across the region. The authorities also acknowledged that rigid foreclosure processes and creditor rights weaknesses are important cost-disincentives to credit, and that the small scale of regional capital markets represents a persistent hurdle to business development. The minimum savings rate was seen as an important source of returns to small savers but may be reviewed once the deposit insurance scheme is implemented and alternative investment opportunities are available.

31. The authorities concurred that labor market frictions undermine employment outcomes and constrain regional growth. Persistent skills and competency gaps, a high level of informality, and youth unemployment were regarded as key challenges. However, the lack of comprehensive labor force statistics across ECCU countries was noted as an impediment both to quantifying the extent of issues and developing effective policy responses. While policymakers acknowledged that overly generous employment protections and elevated minimum wage levels can create economic distortions, these were not regarded as problematic in practice. The authorities partly attributed structural unemployment to a high reservation wage, as opposed to minimum wages that are generally regarded as the minimum living wage. The growing interest among ECCU jurisdictions to introduce UI schemes was noted, as was the recognition that design and funding challenges need to be overcome to ensure they are both effective and sustainable. Skills and competency gaps were noted to exist at all levels, including in leadership and managerial positions. There was broad-based support for enhancements to education programs—including by enhancing vocational training, bolstering STEM curriculums, and leveraging emerging technologies—to reduce skills mismatches and support youth employability. Policymakers saw a potential role for targeted policies to address youth and gender gaps if properly calibrated to country-specific circumstances, including broader fiscal objectives.

32. The authorities concurred with the need to continue strengthening data collection to support economic analysis and policies. They nonetheless also pointed to the importance of parallel efforts to make more efficient use of existing data, noting the ECCB's ongoing internal review of its data architecture.

STAFF APPRAISAL

33. The ECCU has experienced a strong recovery from successive pandemic and commodity price shocks, but capacity constraints and elevated risks increasingly weigh on the outlook. Tourism rebound and investment have lifted real GDP above pre-pandemic levels, and inflation has moderated with easing of commodity price pressures. The more benign economic environment has supported an improvement in external and fiscal balances, although public debt remains high in many ECCU members and the ECCU's overall external position weaker than the level implied by fundamentals and desirable policies. As tourism performance nears full capacity amidst continued post-pandemic restoration of public and private balance sheets, GDP growth is projected to moderate toward pre-pandemic averages over the medium term. The region's growth and fiscal outlooks are heavily dependent on uncertain CBI inflows which remain under close international scrutiny. Other key risks include the high susceptibility to commodity price volatility, slowdown in major tourism source countries, rising vulnerabilities in the ECCU non-bank financial system, and the recurrent threat of natural disasters.

34. Policies should focus on addressing structural constraints to sustainable, inclusive, and resilient growth and reduce fiscal and external imbalances to support continued robustness of the quasi-currency board. Priorities include preserving macro-financial stability and fiscal space for growth-enhancing physical and social investment, strengthening financial sector balance sheets and oversight, fostering local private sector development and investment, and improving the labor market.

35. Continued rebuilding of fiscal buffers while ensuring space for growth-supporting investment remains critical for the currency union's macroeconomic stability and shock-resilience. Balancing these competing objectives can be supported by the continued withdrawal of the temporary measures that responded to the cost-of-living crisis and the adoption of fuel price pass-through frameworks, while strengthening the targeting and coverage of transfers to the most vulnerable. Reviving a regional initiative to streamline tax exemptions under common benchmarks would help lift fiscal revenue. Pooling of regional resources and expertise can help reduce impediments and costs to access international climate finance. Maintaining recent pension reform momentum would address the large longer-term contingent fiscal liabilities and improve the pension systems' fairness and equity.

36. ECCU-wide adoption of national FRFs would help underpin a consistent decline in public debt and enhance credibility of the regional public debt ceiling. Guiding operational rules should be tailored to each member country, with calibration and escape clauses ensuring a fiscal cushion to respond to shocks. Operationalizing regular ECCB Monetary Council peer reviews of member efforts toward the regional debt target would support union-wide fiscal discipline and accountability. Parallel reforms to strengthen fiscal institutions are essential for the FRFs' effective implementation.

37. Deepening regional cooperation on CBI programs would help safeguard this important source of revenue. Building on the already established principles, cooperation would benefit from common due diligence, transparency, and disclosure standards. A regional CBI framework could also include minimum pricing benchmarks to mitigate revenue-erosive competition. Common principles on CBI revenue allocation would contain undue fiscal reliance on the programs, support rebuilding of fiscal buffers, and help ensure space for growth-enhancing investment and social protection.

38. Persistent vulnerabilities require efforts to strengthen financial sector balance sheets and oversight. While the financial system remains stable and highly liquid, addressing underlying asset quality vulnerabilities calls for continued enforcement of bank provisioning regulations, adoption of similar standards for credit unions, and reforms to facilitate disposal of impaired assets. Rising risks in the NBFI sector demands stepped up oversight, with immediate priority to ensure all national supervisors have adequate powers, staffing and data to undertake corrective actions where necessary. The planned introduction of common minimum regulatory standards under the RSSB needs to be pursued expeditiously to mitigate rising arbitrage risks in the current segmented regulatory space. Eventual centralization of NBFI oversight under a model that leverages national supervisors' local presence should be the ultimate goal to safeguard the region's financial stability.

39. Rising private sector insurance affordability challenges necessitate early preparation for potential future mitigating actions. The evolving assessment of climate risks by global reinsurers may imply sustained pressures on property insurance premia with spillovers to financial system credit and asset quality. The risks to economic activity and indirect transmission of natural disasters underscore a need to step up insurance sector data collection, regional supervisory cooperation, and assessment of insurance-banking interlinkages to support monitoring and management of system-wide risks. This would also facilitate assessment of fiscal contingent liability risks from widespread private sector underinsurance.

40. Greater coordination can support ongoing efforts to foster private investment, credit, and local enterprise development. The credit reporting bureau, the partial credit guarantee program, and development of movable collateral frameworks are important advances to revive private sector credit. These would benefit from coordinated complementary programs to support small businesses' ability to meet financing requirements and reforms to strengthen insolvency frameworks, creditor rights, and regional capital market development.

41. Strengthening supervisory resources would support the continued advancement of the financial system reform agenda. The rollout of the Basel II/III prudential standards, the formalization of ECCB's system-wide oversight authority, and the ongoing strengthening of AML/CFT frameworks are important advances toward further modernizing regulations and supervisory processes. It is important for regional and national supervisory capacity to keep pace with growing demands and NBFIs' increasing systemic importance. The introduction of a regional bank deposit insurance system should be aligned with parallel progress in reducing legacy bank vulnerabilities. Its extension to credit unions should be considered only under a more unified oversight framework for all deposit taking institutions.

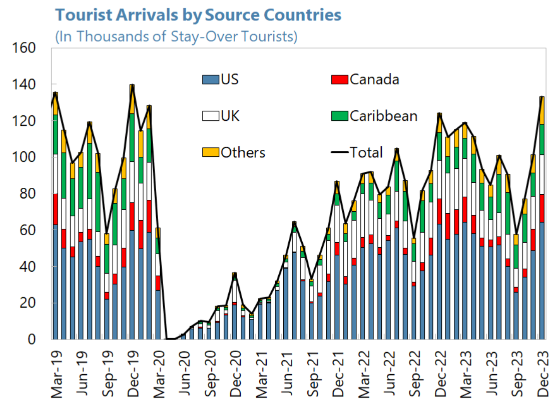
42. Labor markets in the ECCU have been recovering in tandem with the post-pandemic economic rebound, but longstanding bottlenecks constrain labor supply and growth potential. Labor market institutions should achieve an effective balance between efficiency and equity objectives and a recalibration may be warranted, particularly as unemployment insurance schemes are introduced into benefit frameworks. Reforms in this context should be supported by targeted active labor market policies to help reduce informality, decrease skills and competency mismatches, raise participation rates, and ease gender and youth gaps in labor outcomes.

43. Concerted region-wide efforts to strengthen data collection, processing, and transparency are essential to help improve the calibration of economic policies. Data compiled and disseminated by the ECCB are broadly adequate for surveillance of common policies. However, addressing current data gaps in core economic sectors and improving transparency would support the design, effective regional coordination and public accountability over economic policies. Strengthening resources at national statistics offices would improve accuracy, timeliness, and frequency of key economic data.

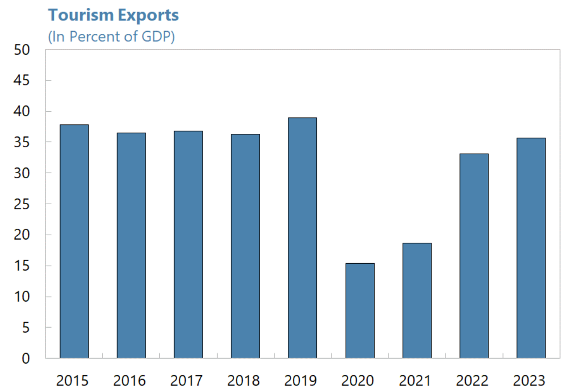
44. The discussion with the ECCU authorities will be on the 12-month cycle in accordance with Decision No. 13655-(06/1), as amended.

Figure 1. ECCU: External Sector Developments

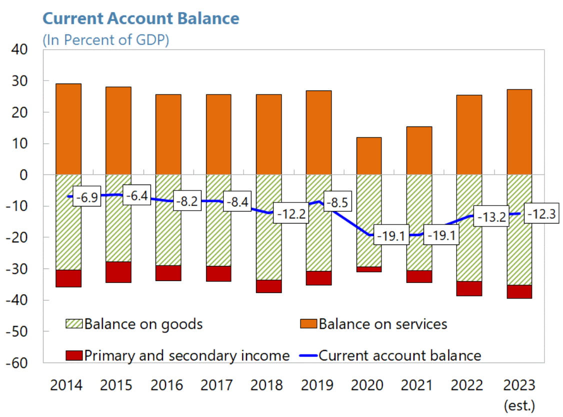
The strong recovery of tourist arrivals…



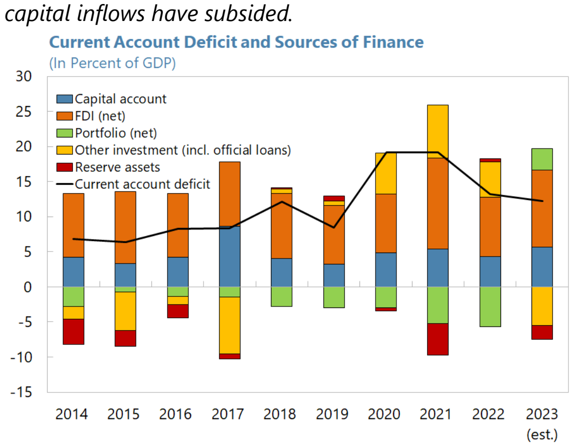
…has driven a rebound in tourism exports from very low levels in 2020.



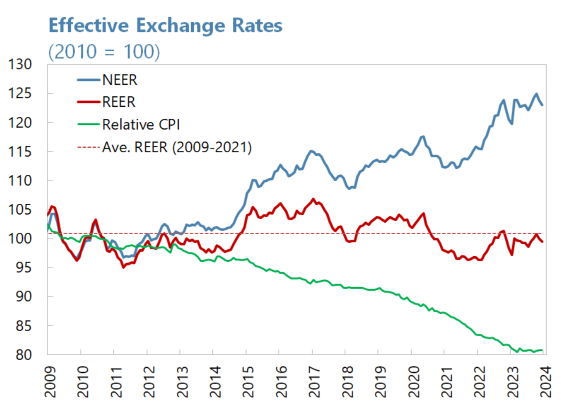
The current account deficit is narrowing…



…financed largely by FDI while pandemic-period official capital inflows have subsided.

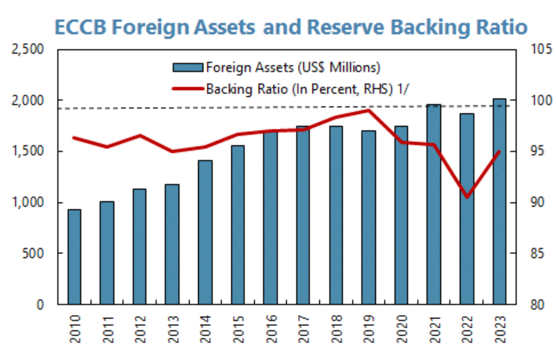


The real exchange rate has remained broadly stable…



Sources: ECCB; and IMF staff calculations.

…while the international reserve backing ratio remains high notwithstanding a temporary decline in 2022.



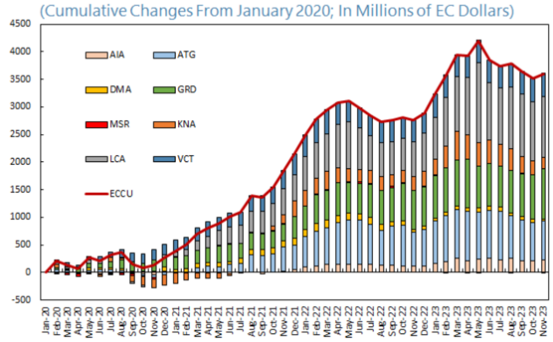
1/ 2023 value for backing ratio is for November 2023.

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

Figure 2. ECCU: Monetary Developments

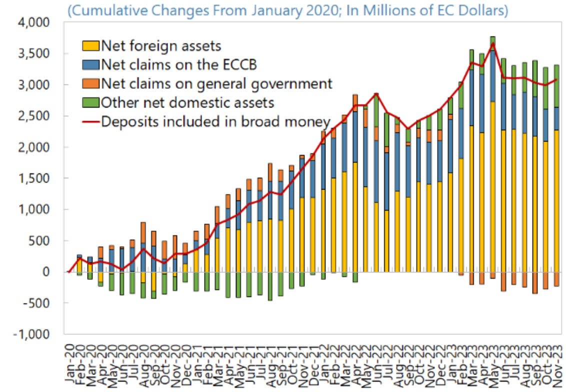
Bank deposits have remained remarkably robust across the region…

Commercial Banks Deposits
(Cumulative Changes From January 2020; In Millions of EC Dollars)



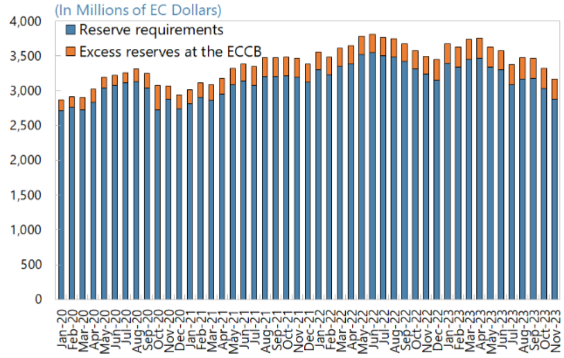
…which has continued to increase banking system foreign investment amid subdued lending.

Commercial Banks Balance Sheet
(Cumulative Changes From January 2020; In Millions of EC Dollars)



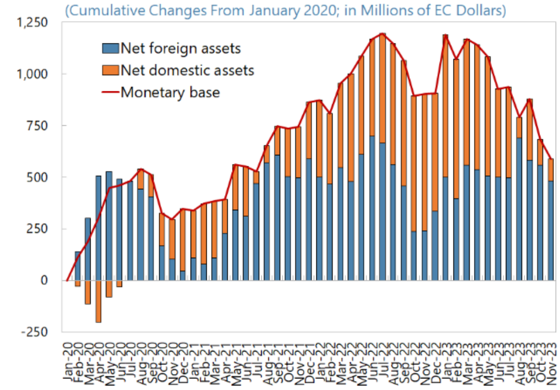
Excess reserves at the ECCB have remained stable…

Commercial Banks Reserve Requirements and Excess Reserves at the ECCB
(In Millions of EC Dollars)



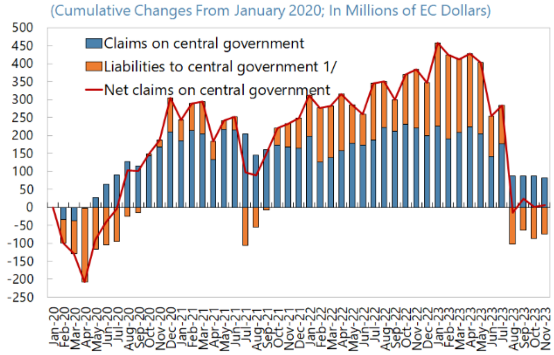
…and much of the post-pandemic increase in the monetary base has been allocated overseas.

ECCB Balance Sheet
(Cumulative Changes From January 2020; in Millions of EC Dollars)



ECCB's net claims on government have recently declined due to a combination of increased deposits and loan repayments…

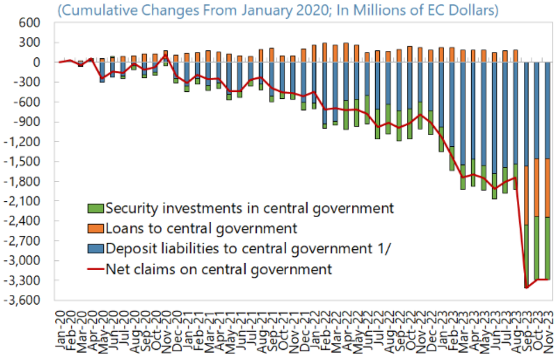
ECCB Net Claims on Central Government
(Cumulative Changes From January 2020; In Millions of EC Dollars)



1/ Positive values reflect deposit withdrawals.

…and bank net sovereign claims have also declined with increased deposits of strong CBI revenue.

Commercial Banks Net Claims on Central Government
(Cumulative Changes From January 2020; In Millions of EC Dollars)



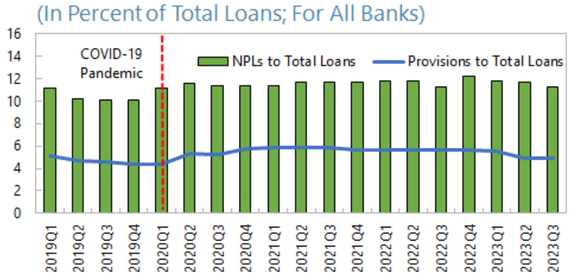
1/ Positive values reflect deposit withdrawals.

Sources: ECCB and IMF staff calculations.

Figure 3. ECCU: Financial Sector Developments: Credit Risk

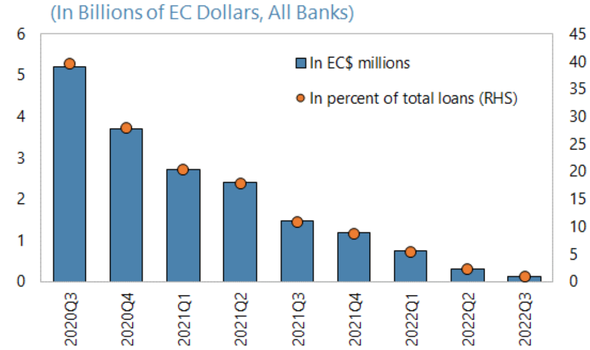
System-wide NPLs remained stable through the pandemic…

NPLs and Provisions to Total Loans
(In Percent of Total Loans; For All Banks)



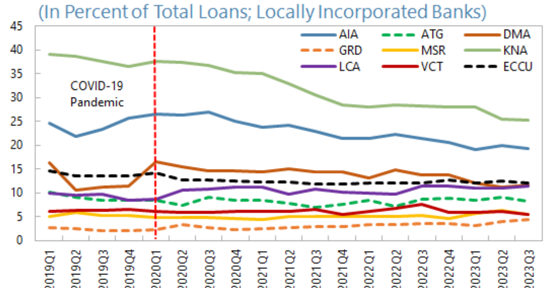
…helped by loan moratoria that were gradually phased out.

Loans Under Moratoria
(In Billions of EC Dollars, All Banks)



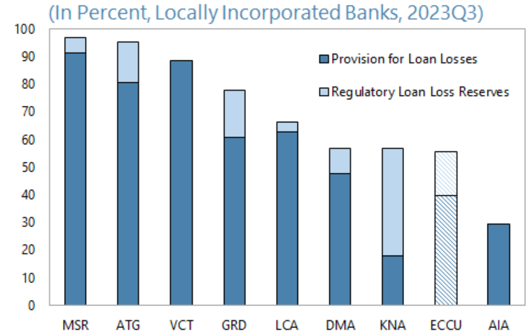
Local bank NPLs nonetheless remain high in several member countries…

Asset Quality Over the Pandemic: NPL Ratio
(In Percent of Total Loans; Locally Incorporated Banks)



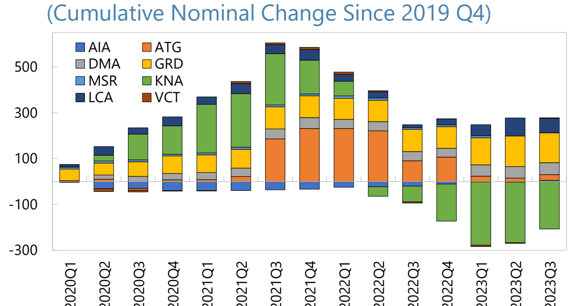
…necessitating higher provisioning as the ECCB's new standards are phased in.

Provisions Coverage of NPLs
(In Percent, Locally Incorporated Banks, 2023Q3)



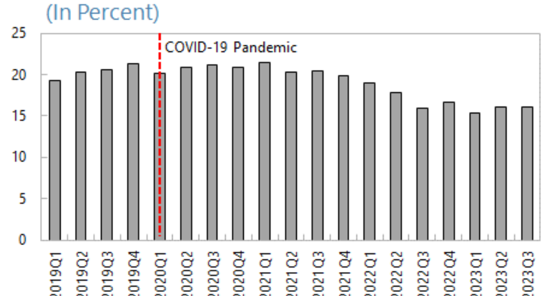
Bank capital has declined with weaker profitability, yet generally remains above pre-pandemic levels…

Total Capital
(Cumulative Nominal Change Since 2019 Q4)



…supporting headline capital adequacy.

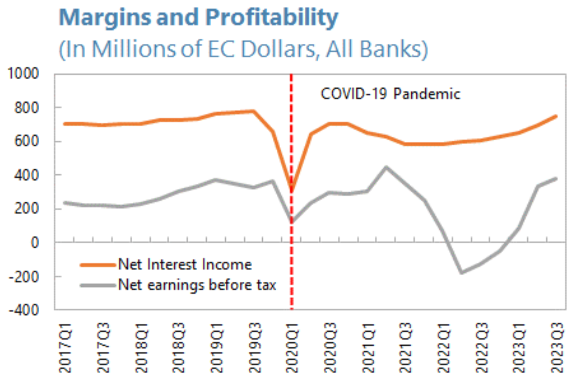
Capital Adequacy Ratio (CAR)
(In Percent)



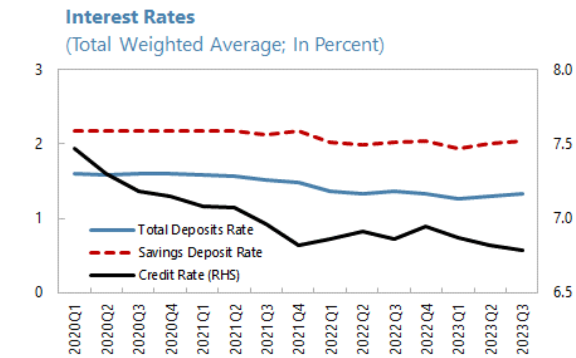
Sources: ECCB and IMF staff calculations.

Figure 4. ECCU: Financial Sector Developments: Business Developments

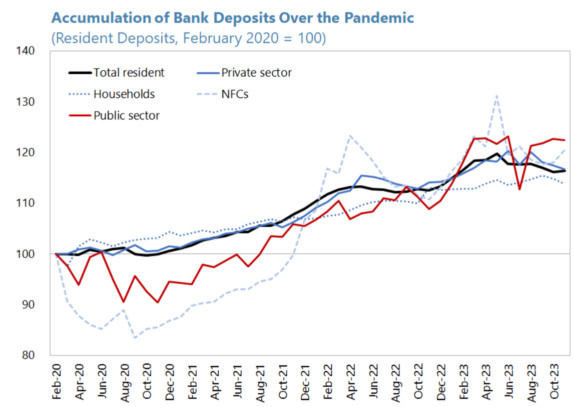
Sector profitability was temporarily eroded by losses on overseas investments…



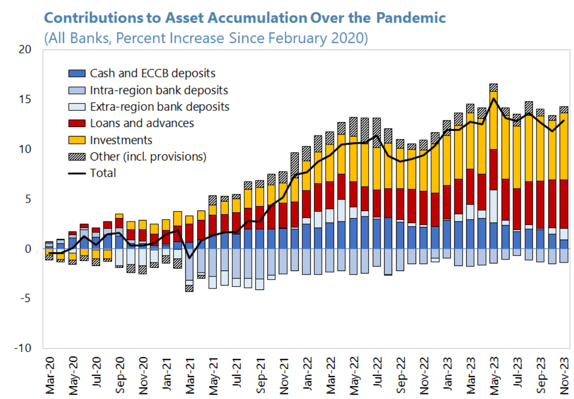
…while continued competition for a limited pool of bankable credit accounts has pushed down average lending rates.



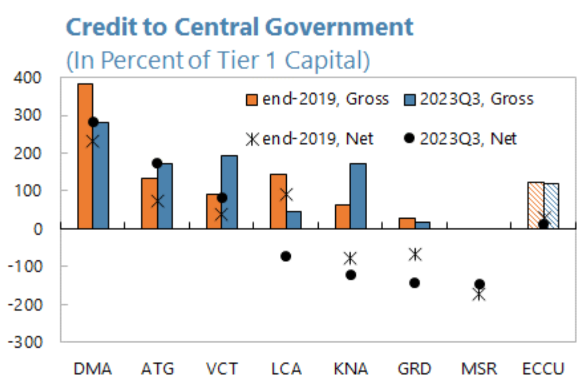
System liquidity continues to increase with both private and public deposits…



…feeding an accumulation of investments amidst modest credit growth.

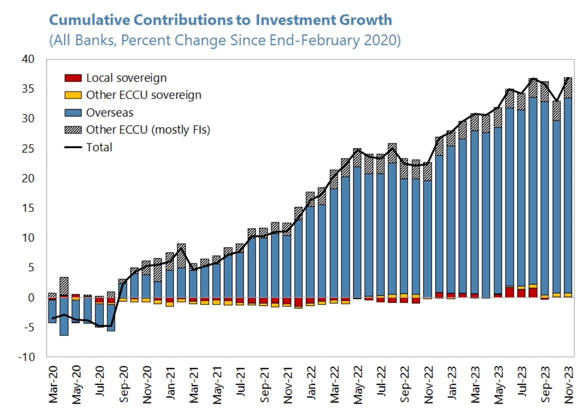


Banks' local sovereign exposures remain elevated in some ECCU countries.



Note: AIA is omitted due to missing values.

Bank exposure to ECCU sovereign securities remains modest, with strong growth in overseas investments.



Sources: ECCB; and IMF staff calculations.

Table 1. ECCU: Selected Economic and Financial Indicators, 2019–25 1/

					Est.	Proj.	
	2019	2020	2021	2022	2023	2024	2025
			(Annual percentage change)				
Output and Prices							
Real GDP	2.1	-16.9	6.0	10.0	4.8	4.3	3.3
GDP deflator	2.2	-2.0	3.4	4.3	4.3	2.4	2.2
Consumer prices, average	0.7	-0.6	1.7	5.6	3.9	2.3	2.0
Monetary Sector							
Net foreign assets	5.1	6.1	16.5	0.9	3.7	5.9	1.9
Central bank	-2.8	3.6	11.6	-4.8	8.3	9.3	5.9
Commercial banks (net)	14.1	8.5	21.1	5.9	0.1	3.2	-1.7
Net domestic assets	1.0	-16.5	1.2	10.4	14.3	3.1	10.5
Of which: private sector credit	0.5	-0.9	1.5	1.6	4.0	4.1	3.9
Broad money (M2)	3.1	-4.7	10.1	4.6	8.0	4.7	5.5
Public Finances			(In percent of GDP, unless otherwise indicated)				
Central government							
Total revenue and grants	26.1	29.0	30.6	30.5	28.8	29.0	27.1
Total expenditure and net lending	28.3	35.6	33.9	33.6	30.9	30.6	29.1
Overall balance 2/	-2.2	-6.6	-3.4	-3.1	-2.1	-1.5	-2.0
Of which: expected fiscal cost of natural disasters	0.4	0.5	0.4	0.5	0.7	0.7	0.7
Excl. Citizenship-by-Investment Programs	-5.8	-12.0	-9.3	-7.3	-6.7	-4.2	-4.3
Primary balance 2/	0.2	-4.1	-1.0	-0.8	0.2	0.7	0.2
Total public sector debt	67.1	86.1	82.9	75.3	72.2	71.8	70.5
External Sector							
Current account balance	-8.5	-19.1	-19.1	-13.2	-12.3	-11.2	-9.9
Trade balance	-30.9	-29.4	-30.6	-34.1	-35.3	-35.4	-34.2
Exports, f.o.b. (annual percentage change)	35.8	-29.3	26.2	48.1	8.8	0.4	10.3
Imports, f.o.b. (annual percentage change)	-1.4	-23.2	15.2	29.6	12.8	6.5	2.7
Services, incomes and transfers	22.4	10.2	11.5	20.9	23.0	24.2	24.3
Of which: travel	38.9	17.0	20.7	34.8	37.3	38.6	38.8
External public debt	34.8	45.4	46.1	41.7	41.8	44.1	44.7
External debt service (percent of goods and nonfactor services)	10.2	21.3	14.9	10.3	9.5	9.1	8.6
International reserves							
In millions of U.S. dollars	1,698	1,747	1,952	1,869	2,015	2,202	2,332
In months of prospective year imports of goods and services	6.3	5.7	4.8	4.1	4.2	4.4	4.5
In percent of broad money	26.0	28.1	28.5	26.1	26.1	27.2	27.3
REER (average annual percentage change)							
Trade-weighted 3/	1.7	-1.8	-4.4	1.9	0.6	…	…

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

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

2/ Projections include expected fiscal costs of natural disasters, estimated based on the historical averages since 1980.

3/ Excludes Anguilla and Montserrat.

Table 2. ECCU: Selected Economic Indicators by Country, 2019–29

(Annual percentage change, unless otherwise indicated)

					Est.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Real GDP	**2.1**	**-16.9**	**6.0**	**10.0**	**4.8**	**4.3**	**3.3**	**2.5**	**2.4**	**2.4**	**2.3**
Anguilla	5.9	-29.9	12.8	15.8	9.3	7.0	3.8	2.7	2.3	2.2	2.2
Antigua and Barbuda	4.3	-17.5	6.6	8.5	5.9	6.1	4.0	2.8	2.8	2.8	2.8
Dominica	5.5	-16.6	6.9	5.6	4.7	4.6	4.3	3.3	2.9	2.9	2.4
Grenada	0.7	-13.8	4.7	7.3	4.8	4.1	3.7	3.0	2.7	2.7	2.7
Montserrat	6.4	-1.1	5.5	2.5	3.8	7.9	3.7	2.2	2.2	2.2	2.2
St. Kitts and Nevis	4.1	-14.6	-0.9	8.8	4.9	3.9	3.0	2.7	2.7	2.7	2.7
St. Lucia	-0.2	-23.6	11.3	15.7	3.0	2.4	2.1	1.8	1.5	1.5	1.5
St. Vincent and the Grenadines	0.7	-3.7	0.8	5.5	6.2	5.3	3.9	2.8	2.7	2.7	2.7
CPI (period average) 1/	**0.7**	**-0.6**	**1.7**	**5.6**	**3.9**	**2.3**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
Anguilla	0.8	-0.5	1.8	5.6	4.6	2.9	2.3	2.1	2.0	2.0	2.0
Antigua and Barbuda	1.4	1.1	1.6	7.5	5.1	2.6	2.0	2.0	2.0	2.0	2.0
Dominica	1.5	-0.7	1.6	7.7	3.5	3.2	2.1	2.0	2.0	2.0	2.0
Grenada	0.6	-0.7	1.2	2.6	3.0	1.7	2.0	2.0	2.0	2.0	2.0
Montserrat	-1.1	-1.9	2.6	3.0	4.4	3.1	2.0	2.0	2.0	2.0	2.0
St. Kitts and Nevis	-0.3	-1.2	1.2	2.7	2.9	2.3	2.1	2.0	2.0	2.0	2.0
St. Lucia	0.5	-1.8	2.4	6.4	3.7	1.8	2.0	2.0	2.0	2.0	2.0
St. Vincent and the Grenadines	0.9	-0.6	1.6	5.7	4.6	3.0	2.0	2.0	2.0	2.0	2.0
Current Account (percent GDP)	**-8.5**	**-19.1**	**-19.1**	**-13.2**	**-12.3**	**-11.2**	**-9.9**	**-9.2**	**-8.0**	**-6.8**	**-5.3**
Anguilla	-39.2	-22.3	-35.2	-41.1	-33.5	-32.3	-33.1	-31.2	-29.9	-30.4	-31.9
Antigua and Barbuda	-6.7	-15.8	-18.4	-16.2	-13.5	-11.1	-10.6	-10.0	-9.7	-9.5	-9.3
Dominica	-38.1	-37.4	-32.9	-26.7	-25.1	-19.9	-18.0	-16.2	-14.2	-11.6	-11.6
Grenada	-10.4	-16.1	-14.5	-11.0	-14.9	-17.0	-13.3	-12.4	-11.5	-11.1	-10.7
Montserrat	1.6	8.3	-18.2	-15.7	-4.5	-6.8	-5.6	-4.0	-3.4	-3.2	-3.2
St. Kitts and Nevis	-4.8	-10.8	-5.1	-10.9	-4.8	-4.2	-4.0	-3.6	-2.8	-2.7	-2.6
St. Lucia	5.5	-18.6	-12.0	-2.9	-6.7	-5.5	-4.5	-3.4	-2.3	-1.2	-0.1
St. Vincent and the Grenadines	-2.4	-15.8	-22.6	-19.3	-17.6	-16.8	-14.9	-12.4	-10.1	-9.4	-8.9
Overall Balance (percent of GDP) 2/	**-2.2**	**-6.6**	**-3.4**	**-3.1**	**-2.1**	**-1.5**	**-2.0**	**-1.2**	**-1.1**	**-1.1**	**-1.0**
Anguilla	2.8	2.9	1.1	8.6	6.9	3.3	0.9	6.4	7.7	8.7	8.5
Antigua and Barbuda	-4.0	-6.2	-4.6	-4.2	-2.0	-1.0	-1.0	-0.9	-0.9	-0.8	-0.8
Dominica	-8.7	-7.5	-8.2	-5.5	-5.4	-5.1	-4.6	-4.2	-3.7	-3.5	-3.1
Grenada	5.0	-4.5	0.3	0.9	6.4	6.1	0.3	0.4	0.5	0.6	0.6
Montserrat	-12.6	-4.0	2.1	3.9	2.3	5.0	7.1	5.8	3.8	3.1	2.6
St. Kitts and Nevis	-0.7	-3.1	5.6	-4.5	3.3	1.2	-0.3	-1.7	-3.3	-3.4	-3.4
St. Lucia	-3.5	-11.5	-5.5	-1.5	-2.8	-3.1	-3.0	-2.9	-3.0	-3.1	-3.1
St. Vincent and the Grenadines	-3.4	-5.9	-7.3	-9.6	-10.7	-7.4	-3.4	0.3	1.0	1.2	1.5
Public Sector Debt (percent of GDP)	**67.1**	**86.1**	**82.9**	**75.3**	**72.2**	**71.8**	**70.5**	**68.5**	**66.8**	**65.4**	**64.0**
Anguilla	48.1	68.3	55.1	41.3	34.0	30.4	28.2	26.2	24.5	23.0	21.6
Antigua and Barbuda	84.1	100.1	95.4	87.1	80.6	76.4	73.9	72.2	70.6	69.0	67.4
Dominica	97.7	112.5	108.5	102.6	96.9	98.3	95.7	93.6	91.5	89.6	87.4
Grenada	58.5	71.4	69.9	62.8	64.0	65.3	61.5	55.4	50.2	46.2	42.4
Montserrat	6.5	6.0	5.4	5.2	5.4	5.8	4.3	4.2	4.1	3.6	3.5
St. Kitts and Nevis	54.3	68.0	69.1	60.6	53.4	51.2	50.4	50.7	52.2	54.7	57.1
St. Lucia	61.9	94.2	82.9	74.2	74.3	75.8	77.2	76.6	76.3	76.1	76.1
St. Vincent and the Grenadines	68.1	79.5	90.0	87.9	85.8	87.5	85.8	82.8	79.0	75.8	71.6

Sources: Country authorities; and Fund staff estimates and projections.
1/ The weighted average inflation using nominal GDP to assign weights.
2/ Projections include expected fiscal costs of natural disasters, estimated based on the historical averages since 1980.

Table 3. ECCU: Selected Central Government Fiscal Indicators by Country, 2019–29 1/

(In percent of GDP)

					Est.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Total Revenues and Grants	**26.1**	**29.0**	**30.6**	**30.5**	**28.8**	**29.0**	**27.1**	**26.8**	**26.5**	**26.2**	**26.2**
Anguilla	24.8	36.6	28.2	32.6	30.2	29.0	30.1	28.0	27.8	27.5	28.0
Antigua and Barbuda	18.8	19.7	19.4	19.3	20.2	20.5	20.6	20.6	20.7	20.8	21.0
Dominica	39.6	59.2	58.8	62.4	43.5	41.2	40.3	40.0	40.0	39.8	39.6
Grenada	26.6	28.1	31.6	32.7	36.5	40.7	29.2	28.8	28.4	28.0	27.7
Montserrat	73.6	88.7	82.6	81.2	72.7	66.6	64.9	63.3	61.1	60.2	59.3
St. Kitts and Nevis	36.6	33.5	46.6	45.6	40.1	38.1	36.3	34.5	32.9	31.2	31.1
St. Lucia	21.5	21.6	21.6	21.8	21.5	21.1	21.0	21.1	21.1	21.1	21.1
St. Vincent and the Grenadines	25.8	28.8	31.4	28.0	27.5	29.0	29.1	29.1	29.1	29.1	29.0
Current Expenditure	**23.6**	**27.6**	**26.6**	**25.0**	**24.3**	**24.1**	**23.6**	**23.4**	**23.2**	**23.0**	**23.0**
Anguilla	20.9	32.3	26.4	23.1	19.4	17.5	16.7	16.0	15.4	14.3	15.2
Antigua and Barbuda	20.9	23.1	21.7	20.5	19.2	18.5	18.5	18.4	18.4	18.4	18.5
Dominica	38.6	38.7	40.2	33.7	33.8	32.9	32.0	31.8	31.5	31.3	31.2
Grenada	19.0	23.1	22.7	21.6	19.1	23.6	23.2	23.1	23.4	23.5	23.5
Montserrat	77.3	77.7	70.3	70.6	65.4	57.3	54.1	52.8	52.0	51.2	50.3
St. Kitts and Nevis	26.1	30.1	34.2	37.9	36.3	33.0	31.9	30.8	29.7	28.6	28.6
St. Lucia	21.5	26.9	22.7	20.3	20.8	20.9	20.7	20.7	20.8	20.9	21.0
St. Vincent and the Grenadines	24.5	27.2	29.4	26.4	26.3	25.6	24.8	24.4	23.9	23.7	23.4
Capital Expenditure	**4.7**	**8.0**	**7.3**	**8.6**	**6.6**	**6.5**	**5.5**	**4.6**	**4.4**	**4.3**	**4.2**
Anguilla	1.0	1.2	0.5	0.7	3.7	8.1	12.4	5.5	4.5	4.3	4.1
Antigua and Barbuda	1.9	2.8	2.4	3.0	3.1	3.1	3.1	3.1	3.1	3.2	3.2
Dominica	9.7	28.1	26.8	32.7	13.7	11.9	11.3	10.9	10.7	10.4	10.0
Grenada	2.6	9.6	8.6	10.2	11.0	11.0	5.8	5.3	4.6	3.9	3.5
Montserrat	8.9	15.0	10.1	6.7	5.1	4.3	3.7	4.8	5.4	5.9	6.4
St. Kitts and Nevis	12.0	7.5	8.3	14.7	8.0	7.7	7.5	7.2	7.0	6.7	6.7
St. Lucia	3.5	6.2	4.3	3.0	2.8	2.6	2.6	2.6	2.6	2.6	2.6
St. Vincent and the Grenadines	4.8	7.5	9.3	11.2	11.9	10.8	7.7	4.4	4.2	4.2	4.2
Primary Balance 2/	**0.2**	**-4.1**	**-1.0**	**-0.8**	**0.2**	**0.7**	**0.2**	**0.9**	**0.9**	**0.9**	**1.0**
Anguilla	4.8	5.3	3.1	10.2	8.2	4.3	1.8	7.1	8.3	8.7	9.8
Antigua and Barbuda	-1.2	-3.7	-2.3	-1.7	-0.4	0.9	1.0	1.0	1.0	1.1	1.2
Dominica	-6.2	-5.4	-5.6	-2.7	-1.1	-0.8	-0.7	-0.6	-0.4	-0.3	0.0
Grenada	6.8	-2.6	2.1	2.5	7.9	7.5	1.5	1.5	1.5	1.5	1.5
Montserrat	-12.4	-3.8	2.3	4.1	2.3	5.1	7.4	6.0	4.0	3.4	2.8
St. Kitts and Nevis	0.5	-1.7	6.8	-3.3	3.9	1.8	0.3	-1.1	-2.6	-2.7	-2.6
St. Lucia	-0.5	-7.7	-2.2	1.5	1.1	0.9	1.1	1.2	1.2	1.2	1.2
St. Vincent and the Grenadines	-1.2	-3.7	-4.7	-7.2	-8.1	-4.4	-0.6	3.0	3.2	3.2	3.2
Overall Balance 2/	**-2.2**	**-6.6**	**-3.4**	**-3.1**	**-2.1**	**-1.5**	**-2.0**	**-1.2**	**-1.1**	**-1.1**	**-1.0**
Anguilla	2.8	2.9	1.1	8.6	6.9	3.3	0.9	6.4	7.7	8.7	8.5
Antigua and Barbuda	-4.0	-6.2	-4.6	-4.2	-2.0	-1.0	-1.0	-0.9	-0.9	-0.8	-0.8
Dominica	-8.7	-7.5	-8.2	-5.5	-5.4	-5.1	-4.6	-4.2	-3.7	-3.5	-3.1
Grenada	5.0	-4.5	0.3	0.9	6.4	6.1	0.3	0.4	0.5	0.6	0.6
Montserrat	-12.6	-4.0	2.1	3.9	2.3	5.0	7.1	5.8	3.8	3.1	2.6
St. Kitts and Nevis	-0.7	-3.1	5.6	-4.5	3.3	1.2	-0.3	-1.7	-3.3	-3.4	-3.4
St. Lucia	-3.5	-11.5	-5.5	-1.5	-2.8	-3.1	-3.0	-2.9	-3.0	-3.1	-3.1
St. Vincent and the Grenadines	-3.4	-5.9	-7.3	-9.6	-10.7	-7.4	-3.4	0.3	1.0	1.2	1.5

Sources: Country authorities; and Fund staff estimates and projections.
1/ Fiscal years for Dominica, Montserrat (since 2010) and St. Lucia.
2/ Projections include expected fiscal costs of natural disasters, estimated based on the historical averages since 1980.

Table 4. ECCU: Selected Public Sector Debt Indicators by Country, 2019–29 1/

					Est.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					(In percent of GDP)						
Total Public Sector Debt	**67.1**	**86.1**	**82.9**	**75.3**	**72.2**	**71.8**	**70.5**	**68.5**	**66.8**	**65.4**	**64.0**
Anguilla	48.1	68.3	55.1	41.3	34.0	30.4	28.2	26.2	24.5	23.0	21.6
Antigua and Barbuda	84.1	100.1	95.4	87.1	80.6	76.4	73.9	72.2	70.6	69.0	67.4
Dominica	97.7	112.5	108.5	102.6	96.9	98.3	95.7	93.6	91.5	89.6	87.4
Grenada	58.5	71.4	69.9	62.8	64.0	65.3	61.5	55.4	50.2	46.2	42.4
Montserrat	6.5	6.0	5.4	5.2	5.4	5.8	4.3	4.2	4.1	3.6	3.5
St. Kitts and Nevis	54.3	68.0	69.1	60.6	53.4	51.2	50.4	50.7	52.2	54.7	57.1
St. Lucia	61.9	94.2	82.9	74.2	74.3	75.8	77.2	76.6	76.3	76.1	76.1
St. Vincent and the Grenadines	68.1	79.5	90.0	87.9	85.8	87.5	85.8	82.8	79.0	75.8	71.6
External Debt	**34.8**	**45.4**	**46.1**	**41.7**	**41.8**	**44.1**	**44.7**	**44.3**	**43.8**	**43.3**	**42.5**
Anguilla	20.1	27.3	23.7	17.4	13.8	12.1	10.9	10.1	9.3	8.6	8.1
Antigua and Barbuda	39.0	47.3	46.7	41.8	42.8	44.8	47.0	48.3	49.9	51.7	51.1
Dominica	56.6	70.9	70.2	67.5	64.7	69.3	64.4	65.8	66.3	66.9	68.1
Grenada	44.0	55.2	54.6	50.0	51.4	54.8	55.0	50.4	46.1	42.1	38.2
Montserrat	5.4	5.1	4.7	4.5	4.4	4.0	3.7	3.5	3.3	3.1	3.0
St. Kitts and Nevis	12.7	15.3	14.8	12.7	9.5	9.4	9.6	9.9	10.3	10.9	11.5
St. Lucia	29.7	45.2	43.1	38.2	39.9	41.8	43.2	43.3	43.5	42.9	43.0
St. Vincent and the Grenadines	48.0	54.8	66.9	64.4	65.2	69.3	69.9	69.1	66.0	63.8	61.6
Domestic Debt	**32.3**	**40.6**	**36.8**	**33.6**	**30.4**	**27.7**	**25.8**	**24.1**	**23.0**	**22.1**	**21.5**
Anguilla	28.0	41.0	31.4	23.9	20.2	18.3	17.3	16.1	15.2	14.4	13.6
Antigua and Barbuda	45.1	52.8	48.7	45.3	37.9	31.6	26.9	23.9	20.7	17.3	16.3
Dominica	41.1	41.6	38.3	35.1	32.1	29.0	31.3	27.8	25.3	22.7	19.4
Grenada	14.6	16.2	15.3	12.8	12.6	10.5	6.6	4.9	4.1	4.1	4.1
Montserrat	1.1	0.9	0.8	0.7	0.9	1.8	0.6	0.7	0.8	0.5	0.5
St. Kitts and Nevis	41.6	52.7	54.3	48.0	43.9	41.7	40.8	40.8	41.8	43.8	45.6
St. Lucia	32.2	49.0	39.8	36.0	34.5	34.1	34.0	33.3	32.8	33.2	33.1
St. Vincent and the Grenadines	20.1	24.6	23.0	23.5	20.6	18.2	16.0	13.7	13.1	12.0	10.0
						(In percent)					
Implied Interest Rates on Central Government External Debt											
Anguilla	5.0	4.7	3.3	3.7	5.1	4.7	4.2	3.6	3.0	3.1	3.2
Antigua and Barbuda	3.3	2.7	2.8	2.6	1.7	2.2	2.6	2.9	3.1	3.3	3.6
Dominica	2.8	1.4	1.3	2.7	2.0	1.8	2.0	1.4	1.5	1.6	1.6
Grenada	3.1	2.6	2.4	2.3	2.0	2.1	1.9	1.8	1.9	1.9	1.9
Montserrat	3.0	2.5	3.0	2.7	0.2	0.2	0.2	0.5	0.2	0.3	0.3
St. Kitts and Nevis	2.6	2.5	2.4	2.3	3.1	0.3	0.4	0.5	0.7	0.8	1.0
St. Lucia	4.4	3.5	3.0	3.2	3.8	4.0	4.1	4.2	4.4	4.5	4.7
St. Vincent and the Grenadines	1.8	1.7	1.6	1.8	2.0	2.5	2.6	2.7	2.3	2.1	1.9
Implied Interest Rates on Central Government Domestic Debt											
Anguilla	3.1	3.1	3.1	3.4	3.0	2.8	2.6	2.5	1.4	1.4	1.4
Antigua and Barbuda	4.3	3.0	2.8	4.0	3.2	4.1	4.0	3.7	3.7	3.7	3.8
Dominica	3.6	3.7	5.7	4.5	11.0	11.8	8.9	10.1	9.4	9.5	9.8
Grenada	3.4	3.4	3.2	3.7	3.1	2.7	3.0	3.6	3.3	3.3	3.3
Montserrat	4.1	4.9	2.7	2.9	4.5	3.6	58.7	36.0	31.7	53.7	44.2
St. Kitts and Nevis	3.4	3.1	2.7	3.3	3.3	0.1	0.1	0.2	0.2	0.2	0.3
St. Lucia	5.8	4.9	5.4	5.3	5.9	5.9	6.0	6.0	6.1	6.1	6.0
St. Vincent and the Grenadines	7.5	5.9	7.2	5.5	6.2	6.5	5.2	4.9	4.2	3.8	3.6

Sources: Country authorities; and Fund staff estimates and projections.
1/ Fiscal years for Dominica, Montserrat (since 2010) and St. Lucia.

Table 5. ECCU: Summary Balance of Payments, 2019–29

					Est.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	(In millions of U.S. dollars)										
Current Account	**-683**	**-1,257**	**-1,375**	**-1,089**	**-1,106**	**-1,078**	**-1,008**	**-976**	**-892**	**-791**	**-652**
Trade balance	-2,491	-1,930	-2,202	-2,810	-3,183	-3,413	-3,476	-3,565	-3,642	-3,770	-3,910
Exports	269	190	240	356	387	388	428	451	474	497	520
Imports	2,760	2,120	2,442	3,166	3,570	3,801	3,904	4,016	4,116	4,266	4,429
Services	2,166	784	1,100	2,096	2,453	2,736	2,877	2,995	3,158	3,390	3,670
Transportation	-249	-208	-253	-352	-385	-411	-433	-454	-475	-497	-520
Travel	3,138	1,113	1,488	2,869	3,366	3,718	3,948	4,163	4,377	4,602	4,818
Other services	-723	-122	-135	-421	-528	-571	-638	-714	-744	-715	-628
Primary income	-363	-116	-279	-380	-402	-430	-435	-432	-434	-438	-440
Secondary income	5	5	6	6	26	29	26	26	25	26	28
Capital Account	**264**	**320**	**387**	**357**	**511**	**469**	**345**	**332**	**319**	**324**	**373**
Financial Account	**-546**	**-708**	**-778**	**-682**	**-595**	**-608**	**-663**	**-644**	**-573**	**-468**	**-279**
Direct investment	-672	-545	-933	-695	-992	-1,050	-871	-884	-894	-908	-927
Portfolio investment	237	192	375	465	-277	-255	-360	-649	-695	-746	-770
Other investment	-49	-388	-546	-418	498	304	332	645	761	921	1,147
Public sector long-term loans	-8	-275	-355	-119	-294	-388	-223	-137	-119	-140	-101
Deposit-taking corporations	-16	-92	-9	-294	3	76	-42	169	37	-60	-810
Others	-25	-22	-182	-5	788	617	597	613	842	1,121	2,059
Reserve assets	-62	35	325	-34	176	392	236	243	255	265	271
Errors and omissions	-192	138	75	-18	0	0	0	0	0	0	0
	(In percent of GDP)										
Current Account	**-8.5**	**-19.1**	**-19.1**	**-13.2**	**-12.3**	**-11.2**	**-9.9**	**-9.2**	**-8.0**	**-6.8**	**-5.3**
Trade balance	-30.9	-29.4	-30.6	-34.1	-35.3	-35.4	-34.2	-33.5	-32.7	-32.3	-32.1
Exports	3.3	2.9	3.3	4.3	4.3	4.0	4.2	4.2	4.3	4.3	4.3
Imports	34.2	32.3	34.0	38.4	39.6	39.4	38.4	37.7	36.9	36.6	36.3
Services	26.9	11.9	15.3	25.4	27.2	28.4	28.3	28.1	28.3	29.1	30.1
Of which: travel	38.9	17.0	20.7	34.8	37.3	38.6	38.8	39.1	39.3	39.5	39.5
Primary income	-4.5	-1.8	-3.9	-4.6	-4.5	-4.5	-4.3	-4.1	-3.9	-3.8	-3.6
Secondary income	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Capital Account	**3.3**	**4.9**	**5.4**	**4.3**	**5.7**	**4.9**	**3.4**	**3.1**	**2.9**	**2.8**	**3.1**
Financial Account	**-6.8**	**-10.8**	**-10.8**	**-8.3**	**-6.6**	**-6.3**	**-6.5**	**-6.0**	**-5.1**	**-4.0**	**-2.3**
Of which: direct investment	-8.3	-8.3	-13.0	-8.4	-11.0	-10.9	-8.6	-8.3	-8.0	-7.8	-7.6
	(Annual percentage change)										
Exports	35.8	-29.3	26.2	48.1	8.8	0.4	10.3	5.3	5.1	4.8	4.6
Imports	-1.4	-23.2	15.2	29.6	12.8	6.5	2.7	2.9	2.5	3.7	3.8
Travel (net)	12.0	-64.5	33.6	92.8	17.3	10.5	6.2	5.4	5.1	5.1	4.7
Direct investment	-193.7	-18.8	71.1	-25.5	42.7	5.8	-17.0	1.4	1.2	1.6	2.1
Memorandum Items:											
Gross reserves of the ECCB (in US$ million)	1,698	1,747	1,952	1,869	2,015	2,202	2,332	2,435	2,436	2,436	2,436
In months of total imports in year t+1	6.3	5.7	4.8	4.1	4.2	4.4	4.5	4.6	4.4	4.2	…

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

Table 6. ECCU: Selected Vulnerability Indicators, 2018–23

(Annual percentage change unless otherwise indicated)

	2018	2019	2020	2021	2022	Est. 2023
External Indicators						
Current account balance (percent of GDP)	-12.2	-8.5	-19.1	-19.1	-13.2	-12.3
FDI inflows (percent of GDP)	10.2	9.4	7.8	11.9	8.5	11.1
Export growth	-7.6	35.8	-29.3	26.2	48.1	8.8
Import growth	18.2	-1.4	-23.2	15.2	29.6	12.8
Travel receipts (percent of GDP)	36.3	38.9	17.0	20.7	34.8	37.3
Real effective exchange rate 1/	-2.1	1.7	-2.0	-4.5	0.0	0.0
Total gross external public debt (percent of GDP)	35.4	34.5	46.2	47.0	42.1	42.1
Gross external financing requirement (in US$ million	1,222	1,025	1,628	1,688	1,438	1,467
Gross international reserves (in US$ million)	1,747	1,698	1,747	1,952	1,869	2,015
Net international reserves (in US$ million)	1,724	1,675	1,736	1,936	1,843	1,995
ECCB reserve cover (in percent) 2/	97.8	99.1	96.0	95.8	90.5	95.0
Public Finance Indicators (percent of GDP)						
Overall central government balance	-1.5	-2.2	-6.6	-3.4	-3.1	-2.1
Primary central government balance	0.8	0.2	-4.1	-1.0	-0.8	0.2
Central government current account balance	1.8	0.3	-1.8	0.3	2.7	2.4
Public sector gross debt (end-of-period)	68.1	67.1	86.1	82.9	75.3	72.2
Financial Soundness Indicators (in percent) 3/						
Capital adequacy ratio (indigenous banks, total capital over adjusted risk-weighted assets)	19.1	21.3	20.9	19.9	16.7	16.2
NPLs/total loans	11.3	10.1	11.6	12.1	12.3	11.3
FX deposits/total deposits	16.3	16.6	15.6	16.9	18.3	18.9
Liquid assets/total assets	36.4	40.4	38.4	38.2	38.6	39.2
Liquid assets/short-term liabilities	39.7	44.6	45.0	43.1	43.0	44.1
Return on average assets	1.1	1.4	1.0	0.9	-0.2	1.2

Sources: Country authorities; and Fund staff estimates and projections.
1/ Excludes Anguilla and Montserrat.
2/ Foreign assets as a percentage of demand liabilities. 2023 data is from published September, 2023 figure.
3/ Data for 2023 is published 2023Q3 data (other than FX deposits/total deposits).

Table 7. ECCU: Financial Soundness Indicators of the Banking Sector, 2018–23
(In percent)

	2018	2019	2020	2021	2022	2023Q3
Capital adequacy						
Regulatory capital to risk-weighted assets (CAR) 1/	19.1	21.3	20.9	19.9	16.7	16.2
Regulatory Tier 1 capital to risk-weighted assets 1/	16.9	17.7	17.2	16.9	13.6	12.8
Asset composition and quality						
Total loans to total assets 2/	40.6	44.1	46.5	44.9	44.5	44.7
Sectoral distribution of loans to total loans						
Loans to residents	96.6	96.1	96.2	96.0	95.5	95.8
Deposit taking financial corporations	1.2	0.5	0.3	0.2	0.2	0.2
Other financial corporations	1.1	0.9	0.9	0.9	1.0	0.9
General government	11.5	12.1	10.8	10.6	10.3	10.1
Nonfinancial corporations	29.3	29.0	31.0	32.5	30.7	32.2
Households and other	53.5	53.6	53.2	51.8	53.3	52.2
Loans to non residents	3.4	3.9	3.8	4.0	4.6	4.2
Nonperforming loans to total gross loans	11.3	10.1	11.6	12.1	12.3	11.3
Total provisions to nonperforming loans 2/	44.0	43.0	50.9	48.4	45.9	43.4
Earnings and profitability						
Return on average assets (ROA)	1.1	1.4	1.0	0.9	-0.2	1.2
Noninterest expenses to gross income	66.1	64.7	62.2	70.7	100.0	71.0
Personnel expenses to noninterest expenses	31.3	30.9	29.4	32.2	19.5	26.7
Interest margin to gross income	59.3	58.6	46.5	50.6	47.3	51.3
Spread between reference lending and deposit rates 3/	6.5	6.4	5.6	5.3	5.6	5.5
Liquidity						
Liquid assets to total assets	36.4	40.4	38.4	38.2	38.6	39.2
Liquid assets to short-term liabilities	39.7	44.6	45.0	43.1	43.0	44.1
Loans to deposits	63.5	64.2	67.5	63.5	62.6	61.7
Sensitivity to market risk						
Foreign-currency-denominated loans to total loans	13.4	11.5	11.7	11.8	13.6	13.6
Foreign-currency-denominated liabilities to total liabilities	18.8	21.1	19.8	17.5	18.1	16.6

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

Table 8. ECCU: Financial Soundness Indicators of the Banking Sector by Country, 2018–23

(In percent)

	2018	2019	2020	2021	2022	2023Q3
Regulatory capital to risk-weighted assets (CAR) 1/	**19.1**	**21.3**	**20.9**	**19.9**	**16.7**	**16.2**
Anguilla	18.5	8.6	8.6	8.5	10.5	12.8
Antigua and Barbuda	36.3	39.4	34.6	32.8	26.7	24.2
Dominica	12.5	13.9	18.9	19.1	15.9	23.7
Grenada	13.2	11.9	15.1	15.8	14.1	13.2
Montserrat	33.6	37.7	37.8	24.1	26.5	18.6
St. Kitts and Nevis	17.4	20.2	24.5	21.8	11.1	12.6
St. Lucia	19.1	15.9	14.9	16.8	15.9	16.8
St. Vincent and the Grenadines	23.1	22.2	22.4	22.4	23.4	15.0
Regulatory Tier 1 capital to risk-weighted assets 1/	**16.9**	**17.7**	**17.2**	**16.9**	**13.6**	**12.8**
Anguilla	17.0	7.4	8.1	7.6	7.0	8.4
Antigua and Barbuda	27.6	31.9	28.6	27.9	21.3	17.6
Dominica	10.8	11.7	16.4	17.0	14.0	21.6
Grenada	11.7	7.8	13.3	14.2	12.7	10.8
Montserrat	31.4	35.9	33.5	20.1	24.8	20.0
St. Kitts and Nevis	18.2	19.4	17.2	16.8	7.8	8.0
St. Lucia	13.2	10.0	10.4	14.4	14.2	14.5
St. Vincent and the Grenadines	25.5	23.8	22.8	20.9	21.0	12.1
Nonperforming loans to total gross loans	**11.3**	**10.1**	**11.6**	**12.1**	**12.3**	**11.3**
Anguilla	24.3	25.8	25.1	21.4	20.7	19.2
Antigua and Barbuda	6.4	5.3	7.4	7.8	6.9	6.3
Dominica	17.0	12.2	15.0	15.7	13.8	13.2
Grenada	2.4	2.2	2.2	2.9	3.6	4.4
Montserrat	4.9	5.5	5.0	5.1	4.6	5.4
St. Kitts and Nevis	24.7	24.0	23.5	20.9	21.8	19.8
St. Lucia	10.0	8.2	11.3	13.8	14.2	13.2
St. Vincent and the Grenadines	6.5	6.4	7.4	7.8	10.1	8.6
Total provisions to nonperforming loans 2/	**44.0**	**43.0**	**50.9**	**48.4**	**45.9**	**43.4**
Anguilla	21.4	16.4	22.6	27.8	28.8	29.6
Antigua and Barbuda	36.3	58.7	90.0	84.3	88.8	86.6
Dominica	94.6	54.6	45.8	49.1	48.9	38.4
Grenada	77.0	82.8	112.5	67.8	84.1	60.6
Montserrat	112.2	118.6	61.7	59.9	97.3	91.4
St. Kitts and Nevis	21.5	24.7	30.8	26.9	26.2	18.8
St. Lucia	53.9	63.0	60.4	54.8	45.3	49.0
St. Vincent and the Grenadines	69.5	58.8	64.0	59.2	48.5	50.1
Return on average assets (ROA)	**1.1**	**1.4**	**1.0**	**0.9**	**-0.2**	**1.2**
Anguilla	0.4	0.9	0.4	1.4	1.2	1.6
Antigua and Barbuda	1.4	1.4	0.4	0.7	0.8	1.7
Dominica	-0.8	2.9	0.9	0.2	-0.9	0.2
Grenada	1.0	1.4	0.4	0.3	0.5	1.1
Montserrat	0.5	-0.1	-0.3	0.0	0.5	1.5
St. Kitts and Nevis	1.3	0.9	2.6	1.9	-3.5	1.0
St. Lucia	1.9	1.5	0.8	0.8	1.2	1.3
St. Vincent and the Grenadines	0.5	1.1	0.1	0.4	0.3	0.8
Liquid assets to total assets	**36.4**	**40.4**	**38.4**	**38.2**	**38.6**	**39.2**
Anguilla	50.9	48.3	45.0	50.4	47.2	56.6
Antigua and Barbuda	57.7	46.4	36.9	40.5	43.6	42.4
Dominica	56.3	46.7	48.9	46.1	48.1	51.0
Grenada	44.9	43.5	46.8	44.9	49.1	48.9
Montserrat	73.3	71.5	78.2	74.1	79.5	79.3
St. Kitts and Nevis	60.2	55.9	58.4	51.6	51.8	50.5
St. Lucia	39.4	40.4	37.8	39.3	43.6	46.3
St. Vincent and the Grenadines	38.1	41.7	44.0	47.2	48.4	43.4

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

Annex I. Implementation of Past Fund Advice[1]

Recommendations from the 2022 Common Policies Discussion	Authorities' Actions
Strengthening Fiscal Frameworks to Withstand Shocks and Safeguard Debt Sustainability	
1. Maintain fiscal prudence while protecting the vulnerable. Enhance coverage and targeting of social safety nets, while allowing a gradual pass-through of international energy and food prices to domestic prices.	**Ongoing**. Temporary government measures have not fully offset the increase in international energy and food prices to domestic prices, allowing some pass-through. Countries have withdrawn most of the temporary fiscal measures adopted in response to the cost-of-living crisis.
2. High-debt members should proceed with fiscal consolidation efforts by mobilizing domestic revenues, rationalizing lower-priority spending, and relying on low-cost financing to safeguard debt sustainability	**Ongoing.** Most ECCU countries are restoring fiscal buffers with the recovery taking hold.
3. Accelerate the adoption or reactivation of rule-based country-specific **fiscal responsibility frameworks (FRFs)**	**Progress in some countries**. Since the 2022 Regional Consultation, Grenada has reactivated and strengthened its FRF.
4. Internalize the impact of natural disasters in fiscal rules to enhance their effectiveness, including with well-defined escape clauses and independent fiscal oversight councils.	**Limited progress**. Authorities recognize the potentially large fiscal implications of natural disasters.
5. Establish robust common standards and arrangements to guide national fiscal policies.	**Limited progress**.
Addressing Pandemic Legacies, Reinvigorating Private Credit Growth, and Reinforcing Financial Sector Resilience to Shocks	
6. Keep close monitoring of asset quality and provisioning buffers following the exit from loan moratoria, in particular for weaker institutions with high NPLs and lagging provisioning compliance.	**Ongoing**. The ECCB and national regulators should continue to ensure that provisioning accurately reflects balance sheet risks and losses.
7. Support private sector credit growth, including by 1) establishing of a regional credit bureau and registry, 2) modernizing national insolvency laws, 3) address collateral constraints to credit access by micro-, small- and medium-sized enterprises (MSME), 4) Revisiting the 2 percent minimum (household) savings deposit rate.	**Partial.** The credit reporting bureau is now online and is expected to improve credit conditions as it reaches full operational capacity over time. Work remains to be done to strengthen the insolvency framework in each of the constituent jurisdictions, as well as updating foreclosure legislation in some. The Eastern Caribbean Partial Credit Guarantee Scheme where bank uptake has so far been limited
8. Take decisive steps to protect already limited local bank Correspondent Banking Relationships. Pursue regional coordination of oversight 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.	**Partial/Ongoing**. Regional coordination of CBI program has been strengthened and national authorities are addressing CFATF mutual evaluation recommendations. The designation of the ECCB as the AML/CFT supervisor of banks is pending in two remaining jurisdictions.

[1] This annex provides a focused follow-up on past Article IV recommendations.

Recommendations from the 2022 Common Policies Discussion	Authorities' Actions
9. Pursue efforts to resolve the currently fragmented non-bank supervision framework. Strengthen risk-based insurance supervision and risk-mitigation standards and address notable data gaps.	**Partial**. The proposed establishment of a Regional Standard Setting Body (RSSB) at the ECCB represents a compromise solution given national authorities' preference to retain national oversight of NBFIs.
10. Strengthening supervision, reporting and regulatory frameworks against climate change risks to further build financial system resilience, by 1) Increasingly incorporating physical climate risks, 2) Tailoring risk assessments and stress tests, and 3) Developing regulatory measures, 4) extend to integrating physical climate risk scenarios in the authorities' financial system crisis management.	**Ongoing.** The ECCB is working on incorporation of climate risks in its frameworks, including considering strengthening the current static solvency stress testing with a more dynamic scenario-based approaches. This initiative is supported by technical assistance while constrained by currently limited data.
Building Climate Resilience and Enhancing Competitiveness	
11. Accelerating the shift to renewables and investing in energy conservation	**Ongoing.** Geothermal plants are under construction in some countries, with projects being contemplated in others, including with the support of concessional funding.
12. Upgrade transportation and digital infrastructure and further regional integration to facilitate trade and help ensure food security.	**Ongoing.** Major infrastructure projects (airports, harbor) are under construction.
13. Address the long-standing skills mismatch in many economies, by stepping up training programs and improve their effectiveness by strengthening the integration between academic institutions and firms and facilitating the transition to employment.	**Progress in some countries.** The government of St. Lucia established a new business incubator agency with financial support and training for young entrepreneurs.
14. Reinforce capacity and fully implement safeguard measures to reap the benefits of DCash and contain risks.	**Ongoing.** After the end of the pilot phase of DCash, the ECCB is preparing a second phase focusing on commercial use.
Statistical Issues	
15. Further enhance the timeliness of data dissemination, in particular of external sector statistics, by ensuring adequate staffing levels and investing in training.	**Ongoing**. Sustained TA from CARTAC on economics statistics in all ECCU member countries, including on balance of payments.

Annex II. Risk Assessment Matrix[1]

Risks	Relative Likelihood	Impact	Policy Response
Conjunctural Risks			
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	High	**Medium ST/MT**. Renewed inflationary pressures, lower real incomes, slower economic growth.	Strengthen the social safety net. Diversify tourism revenues. Increase the linkage between tourism and other sectors. Monitor financial risks closely, including risks to FDI, in coordination with the ECCB.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	Medium	**High ST/MT.**	Strengthen the social safety net to better support the most vulnerable. Accelerate transition to renewable energies to limit dependency on fuel imports. Adopt fuel price pass-through mechanism to mitigate fiscal risks.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation. **U.S.**: Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation.	Medium	**High ST/MT**. Weaker external demand for tourism services with large adverse spillovers to the broader economy and worsening fiscal and external imbalances.	Strengthen the social safety net to better support the most vulnerable. Adopt measures to assist job search and upskill workers and improve labor mobility. Monitor financial risks closely, in coordination with the ECCB.
Monetary policy miscalibration. Amid high economic uncertainty and volatility, major central banks slow monetary policy tightening or pivot to loosen monetary policy stance prematurely, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets.	Medium	**Medium.** Relatively higher advanced economy interest rates could fuel broader rebalancing of regional financial system assets overseas.	Undertake structural financial system reforms to support regional private sector credit, investment and capital market development.
Systemic financial instability. Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing markets dislocations and adverse cross-border spillovers.	Medium	**Medium ST/MT**. Potential market losses on overseas investments and disruptions to FDI inflows.	Intensify supervision of financial institutions and tighten regulations.
Sovereign debt distress. Domino effects from high global interest rates, a growth slowdown in AEs, unfunded fiscal spending, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, and loss of market access.	Medium	**Medium MT.**	Strengthen fiscal frameworks to rebuild buffers and communicate credible medium-term fiscal plans.

[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. The RAM is updated when a new G-RAM is issued.

Risks	Relative Likelihood	Impact	Policy Response
Structural Risks			
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	**High**	**Medium ST/MT.**	Enhance international cooperation and competitiveness to support economic recovery and cross border collaboration.
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	**Medium**	**High ST/MT.** Reduced growth and worsened fiscal and external positions.	Design fiscal frameworks that internalize exposure to natural disasters and climate risk, including sea level rises. Adopt national adaptation plans for investment in structural and financial resilience, build capacity to access climate finance. Strengthen data collection and monitoring of private insurance costs.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets ecosystems) or misuse of AI technologies trigger financial and economic instability.	**Medium**	**Medium ST.**	Enhance digital security in public and private platforms.
Domestic Risks			
Threats to CBI revenues and fiscal under-performance. Lower yields of revenue measures than expected, and a decline in volatile CBI revenues due to increased pressure by the EU and the U.S.	**Medium**	**High ST/MT.** Abrupt changes in regulations could dent CBI demand.	Agree on regional due-diligence and transparency standards for CBI programs and on principles for their allocation to investment and debt sustainability. Mobilize revenues from alternative sources.
Delays in infrastructure investment. Private investment could be unprofitable without enough infrastructure investment.	**Medium**	**High ST/MT.** Reduced tourism and fiscal revenues.	Improve PFM and contain growth of current expenditures. Strengthen fiscal frameworks while protecting space for growth-supporting investment.
Financial sector weakness. Commercial banks continue to report high NPLs, which impair credit intermediation.	**Medium**	**Medium ST.** Hampered private credit growth, financial instability.	Monitor asset quality, ensure adequate loan loss provisioning, and advance financial reform agenda.

Annex III. External Sector Assessment

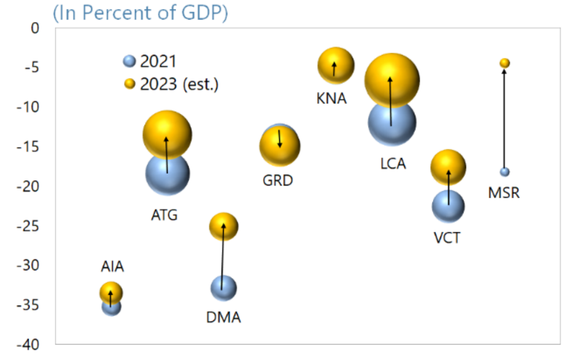
***Overall Assessment**. The ECCU's external position in 2023 is assessed to be weaker than the level implied by fundamentals and desirable policies. The assessment is, however, subject to a wide margin of error given that it is based on staff projections that rely on limited and preliminary high-frequency data for external accounts and other macroeconomic indicators.*[1]

***Potential Policy Responses.** Strengthening fiscal frameworks and regional policy coordination would support the national authorities' efforts to rebuild fiscal buffers while ensuring space for needed growth-enhancing investment and social spending, thereby also helping the ongoing post-pandemic adjustment of external imbalances. Structural reforms to reduce oil import dependence and improve labor markets and competitiveness can strengthen the ECCU economies' external position. Continued strengthening of balance of payments data remains important to support a more accurate assessment the currency union's external stability and the better calibration of policies.*

Current Account

Background. As a small import- and tourism-dependent economies, the ECCU countries' external positions were hard hit by the collapse in tourism exports during the Covid-19 pandemic. Current account deficits widened to 19.1 percent of GDP in 2020-21 (from 8.5 percent in 2019).[2] The deficits have since gradually narrowed as the tourism recovery picked up pace. They are nonetheless estimated to have remained high at an aggregate of 12.3 percent of GDP in 2023, with the subsequent global food and fuel price spike and ongoing large capital investments in some economies putting pressure on imports. The recovery dynamics are also highly divergent across the ECCU, reflecting unevenness in the speed of tourism rebound as well as scale of ongoing import-intensive capital investments.

Current Account Balance 2021-23
(In Percent of GDP)



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

Assessment. The 2023 current account deficit for the ECCU-6 countries (excluding Anguilla and Montserrat) is projected at about 12 percent of GDP. With narrowing of output gaps, the modest cyclical contributions net out for the region as a whole. The adjusted current account of deficit of 10½ percent of GDP reflects temporary trade impacts of recovery from the 2021-22 volcanic eruptions and large import-intensive infrastructure projects (St. Vincent and Grenadines), and high FDI (Antigua and Barbuda). The current account gap is estimated to be nearly -4 percent of GDP.[3] Relative policy contributions to the gap pertain mostly to external factors, with a modest domestic policy component. However, due to data limitations and reliance on staff projections, the assessment is subject to considerable margins of error.

[1] In December 2022, the ECCB began to disseminate quarterly balance of payments indicators based on available administrative data, which at the time of the assessment were partially available through 2023Q3. Supported by Fund technical assistance, the ECCB is working toward dissemination of quarterly balance of payments and IIP statistics by end-2025. ECCU historical external sector data also remains subject to frequent revisions, with the latest revised statistics at end-2023 resulting in substantial revisions to 2019-2022 current account balances in Anguilla, Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis and St. Lucia that are not yet fully capture in the estimates of the current account norm. Supporting national accounts data are available only at annual frequency through end-2022. Due to lack of sufficient data the EBA-lite model-based assessment excludes the overseas territories of Anguilla and Montserrat.

[2] The recently revised historical balance of payments data suggests the pandemic-period slump in current account deficits was more severe than previously estimated 16-17 percent of GDP in 2020-21, but the 2022 recovery was also steeper due to faster-than-anticipated recovery of tourism services exports and lesser import impact from global commodity prices.

[3] The norm includes an adjustor for unusually low remittance receipts in St. Kitts and Nevis considering its (high) ratio of outward migrants relative to its domestic population (which typically should indicate high remittance receipts).

ECCU: EBA-lite Model Estimates for 2023 (Proj.)
(In percent of GDP) 1/

	CA model	REER model
CA-Actual 1/	**-12.0**	
Cyclical contributions (from model) (-)	0.0	
Additional temporary/statistical factors (-)	-1.2	
Natural disasters and conflicts (-)	-0.3	
Adjusted CA	**-10.5**	
CA Norm (from model) 2/	**-8.2**	
Adjustments to the norm (-)	1.5	
Adjusted CA Norm	-6.7	
CA Gap	**-3.8**	**1.8**
o/w Relative policy gap	3.8	
o/w Domestic policy gap	0.2	
o/w Fiscal policy gap	-0.1	
Elasticity	-0.4	
REER Gap (in percent)	**10.8**	**-5.1**

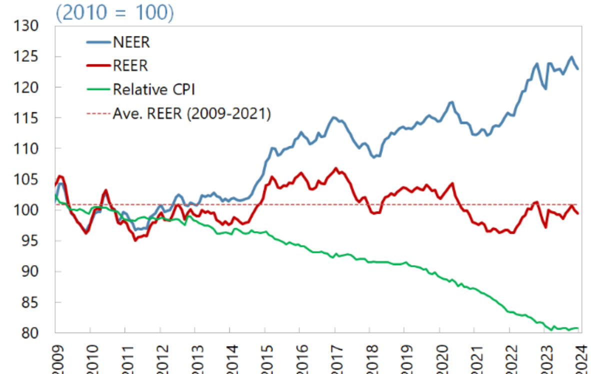
1/ The assessment is for ECCU-6 countries and excludes Anguilla and Montserrat.
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The ECCU's nominal effective exchange rate index has appreciated since end-2021, reflecting the peg to the US$ under the quasi-currency board arrangement. At the same time, the relative price index has continued to fall due to higher trading partner inflation. At end-2023, the real effective exchange rate stood modestly below the 2009-21 long-term average.

Assessment. IMF's EBA-lite Real Effective Exchange Rate model suggests an undervaluation of 5 percent at end-2023. 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 CA model as a reference and applying a staff-estimated semi-elasticity of 0.4 yields an overvaluation of 10.9 percent.

Effective Exchange Rates
(2010 = 100)



Sources: ECCB; and IMF staff calculations.

Capital and Financial Accounts and Net International Investment Position

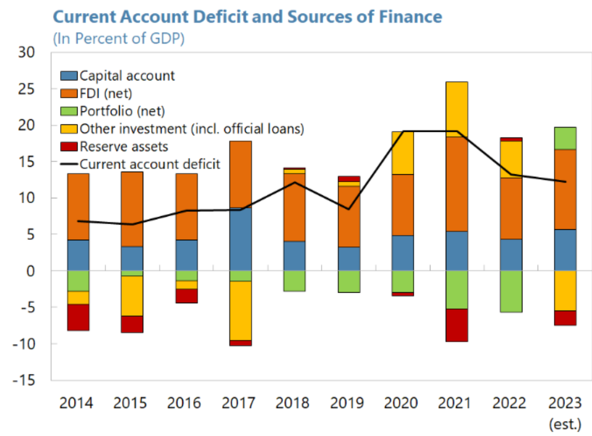
Background

- *FDI inflows* have remained the primary source of financing for the current account deficits. This reflects in part the scale of inflows from some ECCU economies' Citizenship-by-Investment (CBI) programs, although their exact contribution is unknown due to data limitations.[4] *Concessional official financing* from international financial institutions and the SDR allocation in August 2021 provided important external financing support in the pandemic period.

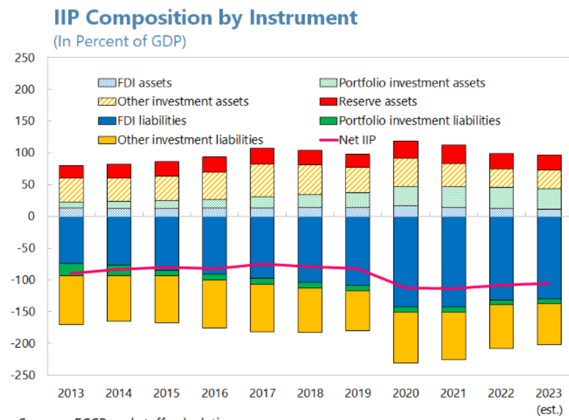
[4] In addition to government contributions, the external CBI investment may take the form of direct (typically real estate) investment. Supported by Fund technical assistance, the ECCB and National Statistics Offices (NSO) are jointly working to improve recording of these investments, but progress has been delayed by NSO staffing constraints and challenges to obtaining sufficient information for real estate developers and investment promotion agencies.

- The ECCU *fiscal position* improved in 2022-23 as output recovery, high inflation, and withdrawal of cost-of-living relief measures narrowed the ECCU's overall fiscal deficit from 3½ percent of GDP in 2021 to an estimated 2 percent in 2023. However, while the overall public debt declined from 83 percent of GDP in 2021 to 72 percent in 2023, it remains well above the 60 percent of GDP debt ceiling committed to by 2035. The persistently high debt ratio constrains the ECCU's fiscal space, and some countries remain challenged in securing external financing.
- The *net international investment position* (IIP) deteriorated over the pandemic and has recovered only modestly since then. At end-2023, the net IIP remained around -100 percent of GDP relative to pre-pandemic levels of around -80 percent of GDP. Nominal net IIP liabilities have increased by roughly a third since end-2019, reflecting predominantly the high FDI inflows, but also increased external development partner borrowing by the governments ("other investment liabilities").

Current Account and International Investment Position



Sources: ECCB; and IMF staff calculations.



Sources: ECCB and staff calculations.

Assessment. Notwithstanding the recovery in tourism, the current account deficit is expected to remain large in 2023, given the region's heavy reliance on imported goods and energy. The continued elevated global economic uncertainty underscores enhanced monitoring of foreign exchange movements and scenario-based policy responses, including estimation of financing needs and sources. Data collection and monitoring of direct investment flows associated with CBI programs needs to be enhanced given their uncertain nature, although the risk of lower future inflows would be partially mitigated by a consequent reduction in import-heavy physical investment.

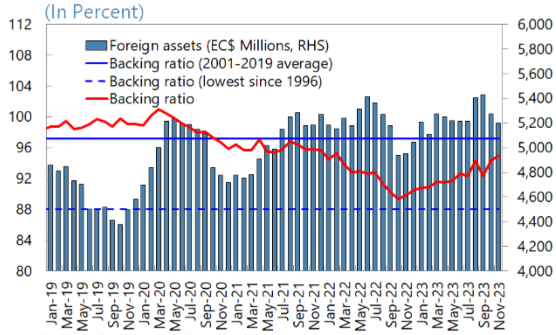
FX Intervention and Reserves Level

Background. Supported by the tourism rebound, the ECCB international reserve position has remained broadly stable above its long-run average at around US$2 billion. At end-2023, this corresponded to about 4.2 months of imports (above the benchmark of three months), 26 percent of broad money (above the benchmark of 20 percent), and 53 percent of total external debt. The ECCB has also maintained a high level of the reserve backing ratio (defined as the stock of the international reserves as a percent of the ECCB's demand liabilities). Notwithstanding recent fluctuations largely associated with valuation effects on reserve assets, the current level of around 95 percent stands broadly in line with its long-term average.

Assessment. To ensure the credibility of the quasi-currency board arrangement, the ECCB has appropriately limited its provision of credit to the economy (including both fiscal authorities and banks), which helped maintain a relatively high level of the backing ratio. Maintaining high reserve coverage of imports is also warranted given their commodity intensity in the ECCU. Risks to reserve adequacy from external debt are mitigated by its reliance on long-term official financing.

ECCB Currency Board Backing Ratio 1/

(In Percent)



Sources: ECCB; and IMF staff calculations.

1/ Defined as foreign assets divided by demand liabilities.

Reserve Adequacy Metric

	End-2023 (est.)	Benchmark
Billions of U.S. dollars	2.0	...
Percent of GDP	22.3	...
Percent of demand liabilities 1/	95.0	...
Months of prospective year imports of goods and services	4.2	3.0
Percent of broad money	26.1	20.0
Percent of total external debt	53.1	...

Sources: ECCB; and IMF staff calculations.

1/ As of end-November 2023

Annex IV. United Kingdom Overseas Territories—Anguilla and Montserrat[1]

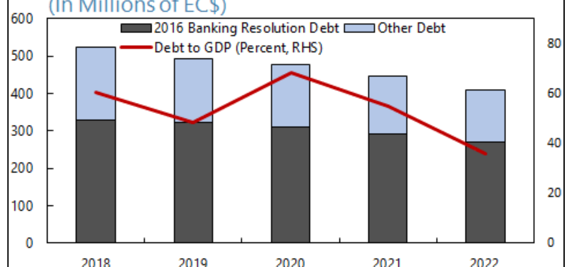
Anguilla

1. Anguilla—a member of the ECCU and of the Organization of Eastern Caribbean States (OECS)—is a British Overseas Territory (BOT) and not a Fund member. The economy is highly dependent on tourism, with tourism exports accounting for 31 percent of GDP, and received budget support in the form of grants from the U.K. during the pandemic. Anguilla's population was estimated to be 15,900 in 2023.

2. A strong recovery from the pandemic is almost complete, albeit slower than in the rest of the ECCU. Preliminary figures for 2023 up to October indicate that tourism has almost fully recovered its pre-pandemic level, reaching 96 percent of the tourism activity for the corresponding period in 2019, and supporting a real GDP growth rate of 9.3 percent in 2023, after a record 16 percent growth in 2022. The opening of the Blowing Point Ferry Terminal at the beginning of the year and new direct flights from Miami should further boost tourism activity in 2024.

3. A newly implemented VAT drove up the overall fiscal balance. After two years of Covid relief from the U.K. government, grants stopped in 2022. However, tax revenues jumped by 80 percent (from EC$ 159 million in 2021 to EC$ 287 million in 2023) following the implementation of a 13 percent tax on goods and services in July 2022. Overall, the fiscal balance climbed to a surplus of 6.9 percent of GDP in 2023, helping to sharply reduce public debt to 34 percent of GDP. Debt associated with the 2016 banking resolutions accounts for more than two thirds of Anguilla's total public debt burden, most of which is in the form of long-dated Promissory Notes to the Anguilla Social Security Board.

Public Debt Composition
(In Millions of EC$)



Sources: AIA government authorities; and IMF staff calculations.

4. The current account balance improved but stayed in deficit amid rising import prices. A significant increase in imports—primarily due to soaring global food and fuel prices—outweighed the recovery in tourist receipts, resulting in a current account deficit of 41 percent of GDP in 2022, larger than the deficit during the post-pandemic recovery in 2021, and in line with a pre-pandemic deficit of 39 percent of GDP in 2019. The deficit is estimated to have narrowed to about 34 percent in 2023, owing to the .ai domain windfall and an increase in tourism activity.

5. The financial sector remains stable but there are pockets of vulnerability. The NPL ratio declined slightly to 19.2 percent in September 2023 from 20.7 percent in 2022, reflecting the recovery in tourism-related employment and business as well as ongoing efforts to dispose of NPLs.

[1] Prepared by Flavien Moreau, Spencer Siegel, and Huilin Wang.

However, it remained well above the prudential benchmark and a post-moratorium increase in NPLs is possible. The capital adequacy ratio rose to around 12.8 percent, above the regulatory benchmark of 8 percent. Liberty Cooperative Credit Union, the territory's only credit union, established three years ago, has seen a rapid expansion.

6. **Medium-term economic prospects continue to depend on the tourism recovery while the authorities are shifting towards clean energy.** With 85 percent of the economy directly or indirectly related to tourism, the economic outlook remains highly dependent on developments in this sector. Anguilla's international borrowing space will remain very limited. A minimum wage of EC$16.15 per hour was adopted in January 2024 by the House of Assembly, following the recommendation of the Minimum Wage Advisory Committee. To lessen the reliance on fuel imports, authorities are pressing ahead with renewable energy plans, especially solar and wind. As elsewhere in the Caribbean, the blue economy—fishery, vessel industry, cruise tourism, and biodiversity preservation—remains the focus in the authorities' medium-term plan.

Montserrat

7. **Montserrat—a member of the ECCU and of the OECS—is a British Overseas Territory (BOT) and not a Fund member.** It has a working population of 2,489 people out of a total population of around 4,390. Montserrat's main economic activities include construction, government services, and tourism. Montserrat's *de jure* capital, Plymouth, was evacuated and substantially buried after eruptions of the Soufriere Hills volcano in 1995. Ultimately, two thirds of Montserrat's population left the island, most of whom relocated to the UK.

8. **Recovery is for now incomplete, with tourism activity lagging.** Tourism recovery has been slow relative to other ECCU countries, with 2023 stay over arrivals more than 20 percent lower than their 2019 level. Tourism is expected to improve back to pre-pandemic levels over the medium term, aided by the additional port capacity. The authorities have also launched the Remote Worker Stamp Program, targeted at digital nomads, in an effort to attract long-term visitors. Reopening has narrowed the current account deficit by an estimated 11 percentage points to 4.5 percent of GDP in 2023 and is projected to remain low in the medium term.

Public and private investments will boost growth. Cruise ship activity has resumed, with two new ship lines expected to begin operations this year. Public investment is expected to boost GDP growth to more than 7 percent in 2024, after 3.8 percent in 2023. The construction sector in particular is benefitting from the large infrastructure projects in Little Bay, where the new capital is to be located: in addition to the port development, expected to be completed by the end of the year, projects include a new parliament building, a subsea fiber project, and a new hospital. Imports of inputs and materials are expected to weigh on the current account balance, which is not expected to close over the medium term.

9. **The fiscal deficit widened in 2023, reflecting growth in expenditures and lending, while revenues and grants decreased.** The fiscal outlook is heavily reliant on budget support from the UK. Grant revenues accounted for 48 percent of GDP in 2023, buttressing the central

government budget. Funding of key projects has led to a small overall fiscal deficit. Public debt—the lowest in the ECCU—stood at 5.9 percent of GDP in 2023 and is projected to remain low and stable in the medium term.

Annex IV. Box 1. An AI-Powered Boost to Anguilla's Revenues

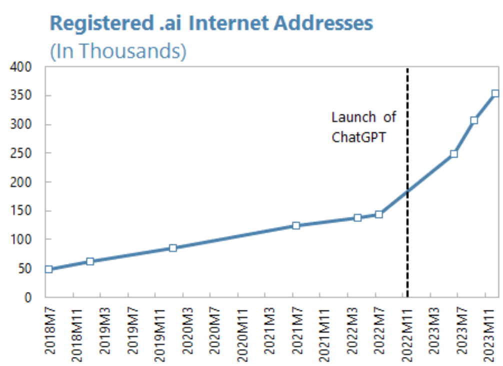
Anguilla's internet domain (.ai) has proven extremely popular globally among tech companies, providing a boost to government revenues in 2023. Registration of .ai domain names has surged after the launch of ChatGPT in November 2022, more than doubling the number of registered internet addresses from a total of 144k registered by July 20, 2022, to 354k by December 2023.

Registrations of .ai internet addresses yielded EC$87m in 2023, accounting for slightly more than 20 percent of government revenues in 2023, up from about 5 percent of revenues in 2022. The Government of Anguilla forecasts that the windfall would stabilize at around 15 percent of revenues in the coming years, after the pace of registration slows down.

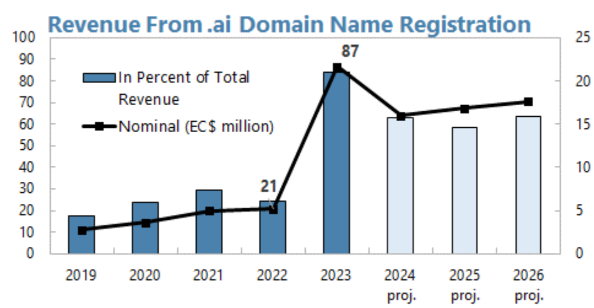
Anguilla is not the first Small Islands Developing States (SIDS) to benefit from a favorable country code top-level domain (ccTLD), assigned to countries by the International Telecommunication Union in the 1990s. However, monetizing this virtual rent can prove challenging. Tuvalu (.tv) leased its domain to an American registrar for about USD 5m a year in revenues. It was able to change provider and negotiate a significantly higher price when the contract expired in 2021. Similarly, the island nation of Niue is trying to regain control of its .nu domain name, seeking USD30m in damages in a Swedish court and hoping to collect USD2m in annual revenues.

Anguilla charges a fixed price of $140 per two-year domain registration, meaning that in addition to new registrations, renewals from the already large stock of registered domain could provide substantial recurrent revenues starting from 2025. Overall, about 90 percent of domains are renewed after 2 years. Expired .ai domains can fetch a much higher price: litigate.ai was auctioned off for US$13,000 in February 2023.[1]

The authorities have announced committing to a prudent use of the windfall, with a focus on capital expenditure, including for the airport development.



Source: Anguilla Treasury Department.



Source: Anguilla Treasury Department.

Source: Government of Anguilla. Offshore Information Services (whois.ai/faq.html).

[1] auction.whois.ai

10. The financial sector remains broadly stable, but credit growth has dwindled. The sector comprises one bank (Bank of Montserrat), a limited insurance sector, and a credit union whose membership extends to the diaspora. NPLs are low at 5.4 percent (2023Q3), with liquidity and provisioning buffers. Lending margins are between 4.5 and 5 percent, and provisioning has dropped to below 100 percent of NPLs by the end of September 2023, but is still well above the ECCB's mandated 60 percent minimum. No issues have been reported in the insurance sector. A cash-driven population generating little local demand for credit motivates the bank and the credit union to lend to the diaspora. Investment in overseas assets makes up 57 percent of total assets, about 10 percent of which in non-ECCU CARICOM countries.

Annex IV. Box 2. Funding Received by British Overseas Territories from the UK and the EU

Under the Withdrawal Agreement with the European Union, British Overseas Territories continued to benefit from the current European Development Fund (EDF) round, until the closure of the ongoing programs by end 2024. Under the EDF's 11th funding round, Anguilla and Montserrat received EUR 16.9 million and 18.7 million, respectively, for education and sustainable growth, spread over several years. The UK Government has not announced any specific replacements to EDF funding.

In December 2023, the UK government and elected leaders of the British Overseas Territories agreed on a joint declaration to modernize the partnership between the UK and the BOTs. Future bilateral agreements between the UK and BOTs will set out shared priorities and responsibilities. Where appropriate, the UK will also support Territories to enter into bilateral agreements with independent nations and to strengthen links with regional and international organizations.

11. Medium-term prospects depend on the continuation of budget support and completing tourism-related infrastructure projects. With over 64 percent of its recurrent budget financed by the U.K. government, Montserrat's prospects rely largely on continued budget transfers, with are decided on a yearly basis. The large port development project in Little Bay, expected to stimulate employment and the construction sector, is under way, after some delays. Expected to be completed by 2024Q3, the port with its new pier and deeper vessel approach channel should allow for greater capacity and improve Montserrat's connectivity with neighboring islands.[2]

12. The Government of Montserrat hopes to reach energy self-sufficiency by 2030, through a combination of solar, wind and geothermal energy. With local fuel prices soaring to US$6.65 per gallon, the island is making great strides towards achieving its goal of becoming a climate-smart economy while allowing international prices to pass-through to domestic consumers. The government currently has a large 1-megawatt solar power plant and recently completed construction on another 750-kilowatt solar plant. The Geothermal Resources Development Act was passed in April 2023 to allow for and outline the exploitation of the island's geothermal resources. Two geothermal wells could provide up to 4 MW of energy, well beyond current peak use of the island.

[2] In 2022, more than 40 percent of scheduled ship visits to Montserrat were aborted, as the ships were unable to anchor at the port due to high seas.

Annex IV. Box 3. Recent Developments in Anguilla's and Montserrat's Pension Systems

Anguilla and Montserrat's pension systems and demographic dynamics share many similarities with those of the other six ECCU members. This box provides a brief overview of these pension systems as well as recent measures enacted by both governments to place them on a more sustainable path.

Anguilla

Essential reforms have been initiated recently to enhance the sustainability of both the Social Security Fund and the Public Service Pension Fund, in line with recent actuarial reports, with a gradual increase of the contribution rate from 10 percent to 12 percent by 2027.

Effective January 1st, 2024, amendments to the Pension Act raised the contribution rates for both the Social Security Fund and the Public Service Pension Fund. Social Security contributions were increased by 0.5 percentage points to 10.5 percent of insurable wages, equally split between employees and employers. The latest actuarial report also recommended improving administrative efficiency and containing large administrative costs, which consumed about a quarter of contribution income over 2018-20.

To qualify for an old age pension, Anguillans must have paid 500 weeks of contributions. Old age benefit is then payable to insured persons when they reach the age of 65 years whether or not he/she continues to be employed. The benefit is calculated based on an average of the highest 3 years of recorded earnings in the last 15 years. A grant is payable to Anguillans who do not qualify for the pension but have paid at least 150 weeks of contributions. The minimum old age pension stands at EC$ 165 per week as of 2024.

Contribution rates to the Public Service Pension Fund (PSPF) were also increased in January 2024 for both employer and employee to 6 and 4 percent, respectively. The PSPF is the sole pension scheme for employees of the Government of Anguilla and of several other government agencies. It is a contributory, defined benefit pension plan, whose rules are set out in the Pension Act.

Montserrat

Montserrat has an aging population, a dynamic amplified by the emigration of a sizeable fraction of the young and working age population, driven by the search of better access to education, jobs, and healthcare. Immigration and return migration have also slowed down in the past few years.

In 2012, the Government of Montserrat, by far the island's largest employer, retroactively added public servants to the Social Security Fund (MSSF). In the ensuing years, benefit and administrative expenses have largely exceeded income from contributions and investments, forcing MSSF to dip into reserves each month to make pension payments. The shortfall ballooned to EC$4.6m in 2017.

Consequently, the Government of Montserrat has made several amendments to the Social Security Act and subsidiary regulations, based on actuarial advice, which placed the Fund on a more sustainable path in the medium term. These measures include a gradual increase of both employees' and employers' contribution rates from 4 and 5 percent in January 2022 to at least 7 and 8 percent by 2026; the elimination of the early pension option, thereby moving the eligible age for claiming an Age Pension from 60 to 65 years, as well as a 5-percentage point reduction to the maximum pension percentage rate for Age and Invalidity pensions to 55 percent.

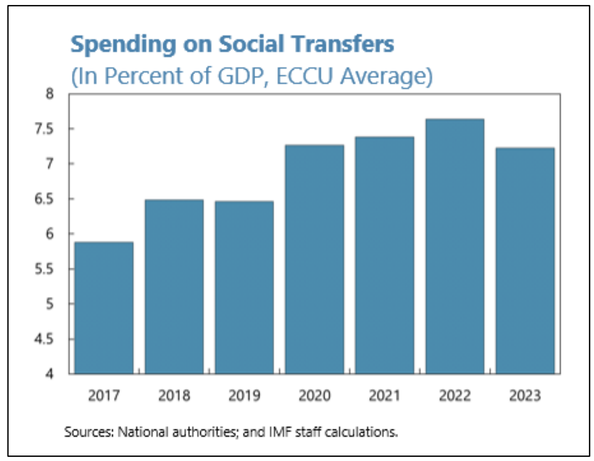
A review of the current pension system is ongoing.

Sources: Actuarial Review of the Government of Anguilla Public Service Pension Fund (2021); 12th Actuarial Review of Anguilla Social Security Fund (2021). Performance Audit of the Montserrat Social Security Fund: Governance and Sustainability (2020).

Annex V. Improving Social Assistance Targeting in the ECCU[1]

Social assistance programs help advance the well-being of vulnerable populations and mitigate poverty in the ECCU. They also play a key role in cushioning the impacts of large economic and natural disaster shocks. This annex discusses challenges and options to improve social assistance targeting. Key recommendations include: (i) adopt a centralized information system; (ii) review and streamline current programs for efficiency and cost minimization; and (iii) leverage administrative, survey, and geospatial data to improve targeting.

A. Context



1. Social assistance programs have played a key role in cushioning the impacts from the pandemic and 2022 cost-of-living crisis in the ECCU. The temporary expansion of social assistance programs provided critical support to the vulnerable population. It nevertheless took a toll on fiscal accounts, which is particularly costly in the ECCU due to high public debt in most countries. Yet, demand for social protection remains large given the region's vulnerability to economic and natural disaster shocks. With scarce fiscal resources, determining which segments of the population are most in need of social assistance—referred to as targeting—is thus one of the most important policy decisions of ECCU governments.

2. The overall lack of updated data on poverty and vulnerability is a constraint for policy design. Social assistance programs are administered with incomplete information on the population. The lack of a centralized data system on income or wealth and the presence of a large informal sector make means testing difficult. Although some countries have periodic surveys, the overall lack of frequent and periodic poverty and vulnerability assessments is a challenge in the region. The problem is aggravated in times of large economic and natural disaster shocks, which often requires rapid support for those most severely impacted. Chen et al. (2024) address these challenges by using machine learning techniques to combine granular satellite and nightlights data with household surveys, where available, and leverage the mapping between the two sets of data to predict the distribution of vulnerable households across the Eastern Caribbean.

3. The fragmentation of social assistance programs presents further challenges. The system comprises a mix of programs, including cash and in-kind transfers as well as subsidies and assistance, often administered by different public entities. The lack of centralized information poses challenges in ascertaining the coverage and cost of the programs.

[1] Prepared by Sophia Chen, Flavien Moreau, and Joana Pereira.

4. Data limitations pose important challenges for the targeting of social programs. Data limitations and capacity constraints limit the use of means-tested programs. The region has instead relied on proxy means testing (i.e., estimating the need for social assistance with a statistical model), categorical targeting (e.g., targeting children, elderlies, and people with disabilities), and hybrid targeting (e.g., combining an income limit with a vulnerability scoring system based on multiple sociodemographic criteria). Some forms of geographic targeting—with beneficiaries limited in defined geographic areas—have been used in responses to natural disasters.

B. Policies to Improve Social Assistance Targeting

Adopt a Centralized Data System

5. ECCU countries can benefit from an up-to-date centralized beneficiary data system. A centralized system can help (i) provide an accurate record of beneficiaries; (ii) identify duplications and gaps in coverage; (iii) improve the efficiency of program administration; and (iv) improve case management and better support beneficiaries transitioning in and out of the programs. Progress can be made to integrate and digitalized existing data infrastructure. A single nation ID system can provide a foundation for an integrated and dynamic beneficiary data system. The use of unified data can also help ensure equity across multiple programs.

Review and Streamline Current Programs

6. A comprehensive review of program eligibility and benefits can improve efficiency and eliminate duplication. A streamlined system can reduce the costs of program administration and case management. In countries where social assistance programs are administered by multiple public entities, interagency coordination can help consolidate benefit coverage, eliminate duplication, and reduce disparities across regions/groups. Steps in that direction have been taken in St. Kitts and Nevis, with the recertification of beneficiaries of the Poverty Alleviation Program, and in St. Vincent and the Grenadines, with the streamlining of pre-pandemic programs into three grant schemes, under the umbrella of a flagship Public Assistance Program.

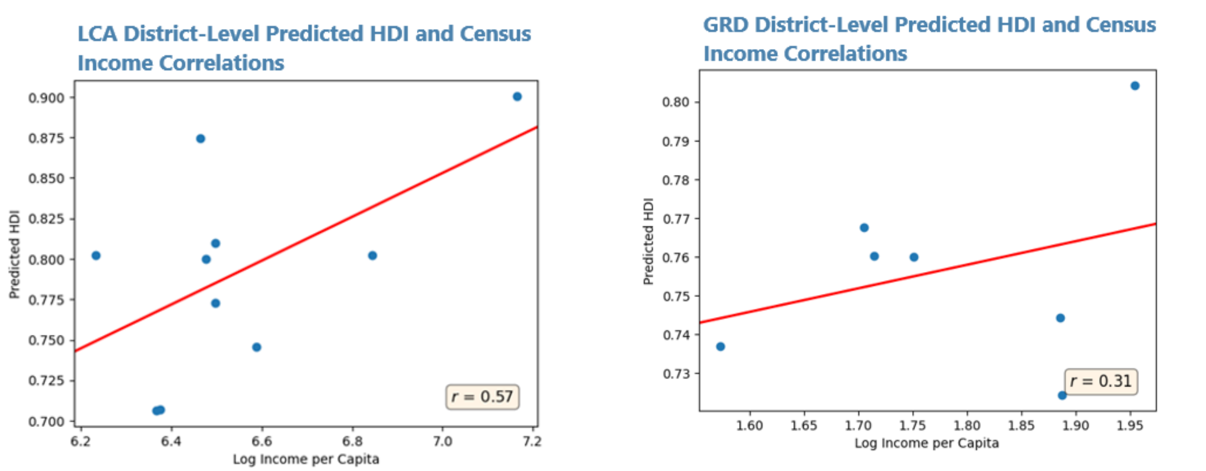
Leverage Administrative, Survey, and Geospatial Data to Improve Targeting

7. Additional data could be collected and used to help improve social assistance targeting. At the individual and household level, administrative and survey data (e.g., national household registry, social security system, and taxpayer information) can be used to verify self-report information for program eligibility. Population census and labor surveys can be revised to include social indicators required for efficient targeting of social assistance. The savings can in part be used to finance the cost of periodic surveys. At the administrative area level, geospatial information can be used in geographic and hybrid targeting settings. For example, information on risks of natural disasters (e.g., volcano, floods, storms) can facilitate rapid response to areas most in need after a natural disaster shock.

8. Big data could fill the gap of traditional data. High resolution satellite data have become available in recent years. Small geographic areas in the ECCU appear in imagery from satellite-based sensors, both daytime and nighttime. They provide invaluable geospatial information at a granular level unavailable from traditional data. This information has increasingly been used to predict socioeconomic variables at a granular level that may be too expensive to obtain and update through ground survey (Yeh et al. 2020; Chi et al. 2022).

9. Satellite data contain valuable information to estimate local well-being. Recent literature shows that that United Nations' Human Development Index (HDI), which is previously available at the national level, can be extended to the subnational level using predictions from satellite imagery and machine learning techniques (Sherman et al. 2023). Following this approach, staff estimates local HDI in the ECCU. The HDI summarizes three key dimensions of well-being: the health of the population, human capital, and standard of living. A more comprehensive measure of well-being than income or wealth alone, it has been widely used by policymakers and academics in areas of development assistance and the global allocation of resources. The use of HDI in the context of social assistance aligns well with an increasingly popular approach to assessing vulnerability from a multidimensional perspective rather than from income alone.

10. Local well-being estimated from satellite data predicts local income in ECCU countries with high accuracy. For example, the predicted HDI—and its income component—is strongly and positively correlated with income from the St. Lucia Census at the district level. It is also correlated with district-level income from the Grenada Labor Force Survey, albeit with weaker correlation.[2]



Sources: St. Lucia Census; Grenada Labor Force Survey; and IMF staff calculations.

[2] The estimated district-level HDI for St. Lucia explains 57 percent of the district-level variation in log per capita income from the 2010 St. Lucia Census. The estimated district-level HDI for Grenada explains 31 percent of the district-level variation in log per capital income from the 2019Q4 Grenada Labor Force Survey. The accuracy of the estimation cannot be verified for other ECCU countries due to the lack of survey data. For details, see Chen et al. (2024).

11. Data on within-country disparities can be used to improve social assistance program targeting. Available data from surveys and satellite images show that substantial within-country disparities in income and well-being. Staff simulations demonstrate the potential benefits of leveraging such information in program design. First, it can improve targeting by reducing aggregation bias, particularly by incorporating subnational-level well-being measures alongside national-level measures. Second, it facilitates better resource allocation across geographic areas. For instance, parish-level average income can inform the proportional allocation of administrative and program resources to areas in need. Third, it serves as a proxy for hard-to-verify information, such as informal income, which can supplement existing selection criteria and further improve targeting.

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Yeh, Christopher, Anthony Perez, Anne Driscol, George Azzari, Zhongyi Tang, David Lobell, Stefano Ermon, and Marshall Burke. 2020. Using Publicly Available Satellite Imagery and Deep Learning to Understand Economic Well-Being in Africa. Nature Communications 11(1).

Annex VI. Fuel Price Passthrough Frameworks in the ECCU: Managing the Fiscal Risk While Balancing Efficiency and Social Considerations[1]

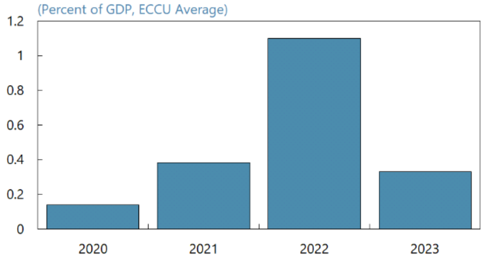
ECCU countries operate some form of international oil price passthrough framework, but the implementation is often characterized by discretional interventions to affect the domestic fuel price without the full internalization of the associated fiscal cost. This annex presents stochastic simulations of alternative frameworks designed to prevent revenue loss over the medium term when governments balance resource allocation efficiency (rapid passthrough), and social considerations (slow) to ease the burden on the population when international oil prices are high. The results indicate that frameworks based on averaged lags of international fuel prices are better than price-band mechanisms in terms of fiscal risk minimization.

1. Oil-importing ECCU countries reduced taxes on fuel during the spike in international oil prices triggered by Russia's war in Ukraine in 2022 to provide relief by containing transport and electricity costs.[2] This happened at a time when the region was still recovering from the Covid-19 pandemic, and imported food prices were also high. This had a significant fiscal cost in terms of foregone fuel tax revenue, adding to already-high public debts (Figure 1, left chart). While all ECCU countries already have in place some form of international oil price passthrough mechanism, most governments in the region discretionally intervene with fuel tax reductions to contain the social and economic impact when international prices are high (Figure 1, right chart). While anecdotal evidence indicates some governments in the region are mindful of the associated negative fiscal impact, including by trying to recover fuel tax revenue when the international oil price declines, this is done in a seemingly ad-hoc way, without a comprehensive evaluation of the fiscal risks and the net revenue impact.

Annex VI. Figure 1. Fuel Prices and Fuel Tax Revenue in the ECCU

Estimated Fiscal Cost of Fuel Price Adjustment

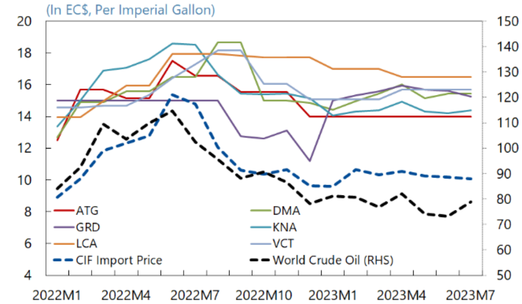
(Percent of GDP, ECCU Average)



Sources: ECCU Fuel Price Tracker; WEO database October 2023; US Energy Information Administration; and IMF staff calculations.
Note: Fiscal Cost = Fuel Tax Revenue in 2019 - Current Fuel Tax Revenue.

Retail Price of Gasoline

(In EC$, Per Imperial Gallon)



Sources: WEO GAS; country authorities; and IMF staff calculations.
Note: CIF import price data is from Saint Lucia.

2. To address these challenges going forward, this annex presents stochastic simulations of alternative automatic international fuel price pass-through frameworks that, simultaneously:

[1] Prepared by Alejandro Guerson and Hyunmin Park (WHD).

[2] Energy is largely produced with diesel fuel generators.

- **Internalize the tradeoff between resource allocation efficiency and social relief ("efficiency-social tradeoff").** Efficiency is achieved with a rapid international fuel price transmission to the domestic fuel price that enables full internalization of the fuel cost by producers and consumers. The social and economic burden of high fuel prices can be contained by smoothing the transmission to the domestic fuel price to avoid a sharp adjustment.

- **Map each efficiency-social balance choice to its implied fiscal risk**, as measured by the corresponding expected volatility of annual fuel tax revenue.

- **Achieves no negative medium-term fiscal impact.** To this end, a transversality condition is imposed in the simulations to ensure that the fuel tax revenue loss when the international oil price is high is compensated by relatively higher revenue when the international price is low, so that there is no expected net revenue loss over a set period.

3. Two pass-through formulas are evaluated. First, a ***moving average mechanism*** in which the domestic price of fuel is set in relation to the average of recent international oil prices. Fuel taxes applied to the averaged international price are maintained constant in the simulations.[3] This implies that the government is implicitly easing (tightening) fuel taxation and losing (gaining) revenue when the international price is increasing (declining). Second, a ***price band mechanism*** by which the domestic fuel price changes with international prices within a range, but the size of the change in the domestic after-tax fuel price is capped. In this way, there is an implicit fuel tax reduction (increase) and a tax revenue loss (gain) when the changes in the international oil price are larger (smaller) than a set ceiling (floor).

A. Methodology

4. The two pass-through formulas are evaluated using stochastic simulations that replicate the empirical variability of the international oil price and its impact on the economies, in four steps:

i. ***Estimate Vector Auto Regression models for each ECCU country*** including the international oil price, imports of goods,[4] tax revenue, and inflation. These indicators capture the impact of the international oil price shocks on domestic demand (a large share of consumption and investment goods are imported in the small undiversified ECCU economies) and on the broad tax revenue base and is indicative of the economic stabilization properties of the frameworks.[5]

ii. ***Run a Monte-Carlo experiment.*** This involves generating a large number of off-sample stochastic simulations using the estimated models in (1). The resulting simulations replicate the statistical properties in the sample data, including variability, co-movement, and

[3] This can be implemented by communicating a reference oil price to which the fuel tax rates are applied, to obtain the target domestic fuel price implied by a fuel price passthrough framework, or by adjusting tax rates.

[4] Excluding mineral fuel and related material.

[5] The estimations include 3 lags of each variable.

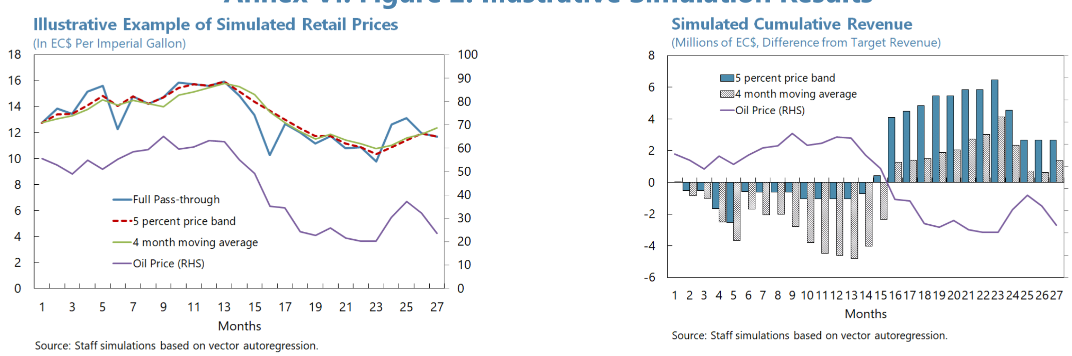
persistence.[6] The transversality condition ensures a net zero revenue loss over the simulation horizon.

iii. ***Set the efficiency-social tradeoff.*** Using the simulations in (2), the trade-off efficiency-social tradeoff is captured by the volatility (calculated as percent change in absolute value) of the monthly after-tax domestic fuel price.

iv. ***Compute the fiscal risk of each efficiency-social trade off option.*** Fiscal risk is measured by the standard deviation of the annual fuel tax revenue. The tax revenue is calculated by applying the tax rates on fuel to the off sample simulated international oil price plus a mark-up estimate based on historical data.

5. These statistics are computed for the two sets of oil passthrough mechanisms above, for a range of averaged lags and price band options, respectively. Figure 2 shows a random off-sample simulation for the cases of a 4-month moving average and a 5 percent price band, respectively, to illustrate the working of the simulation.

Annex VI. Figure 2. Illustrative Simulation Results



Source: Staff simulations based on vector autoregression.

Source: Staff simulations based on vector autoregression.

B. Results

6. The simulations using alternative parameters can be used by the governments to choose their preferred efficiency-social tradeoff and map it to its fiscal risk. The results indicate that a framework based on moving averages dominates the price band option in every ECCU country: for every efficiency-social tradeoff point, the fiscal risk is lower. The diagram in Figure 3 guides the interpretation of the empirical results showcased in Figure 4. Figure 4 shows various moving average lag lengths and price band widths. In Figure 4, each point in the moving average (orange) and in the price band (blue) lines corresponds to a specific Monte-Carlo experiment. For example, the far-left

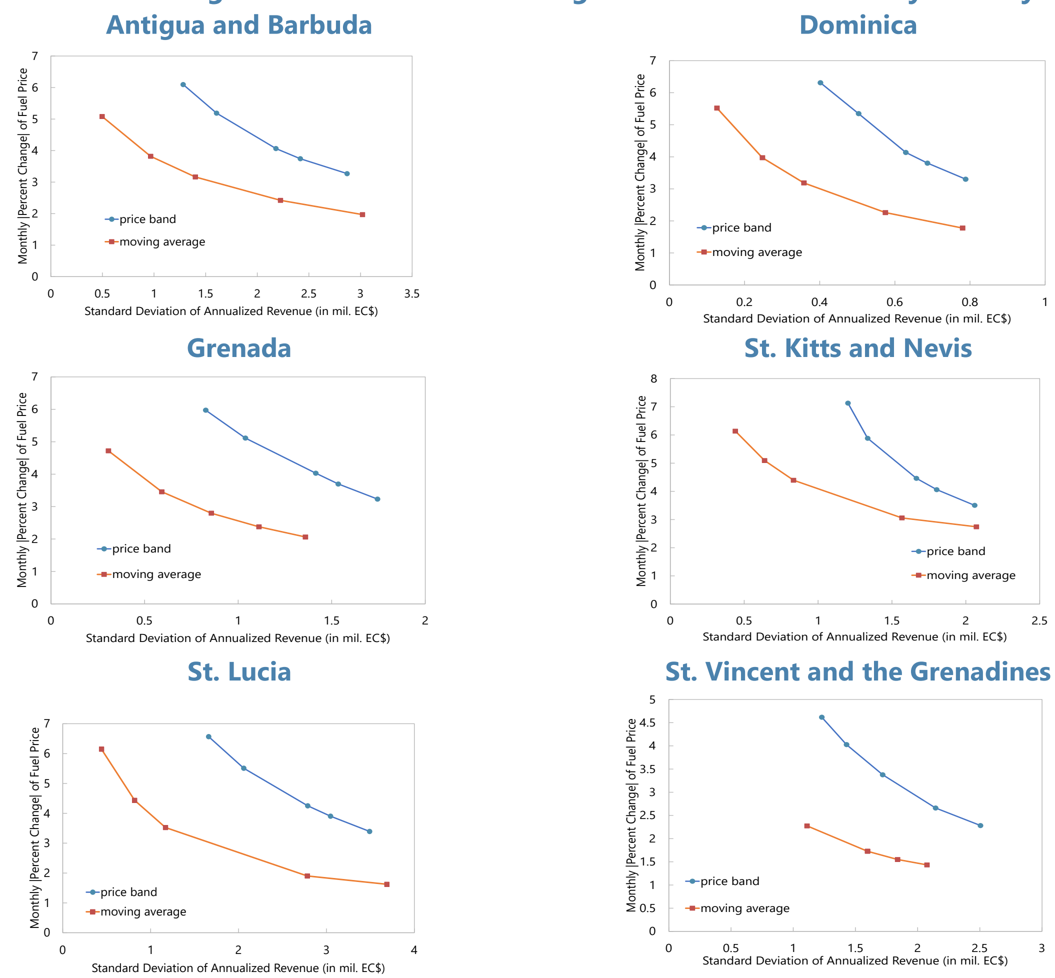
Annex VI. Figure 3. Fuel Price Frameworks' Tradeoffs

Allocation efficiency ↕ Social Insurance		
Allocation efficiency	**High** allocation efficiency **Low** social protection **Low fiscal risk**	**High** allocation efficiency **Low** social protection **High fiscal risk**
Social Insurance	**Low** allocation efficiency **High** social protection **Low fiscal risk**	**Low** allocation efficiency **High** social protection **High fiscal risk**
	Fiscal Risk →	

[6] The experiment included monthly simulations over 2024-26, for illustrative purposes.

point in the blue line in the chart for Antigua and Barbuda represents the price band (2.5, -2.5) percent monthly change range, and the far-right point a (6, -6) percent monthly change range for domestic fuel price increases, with other points capturing intermediate simulated ranges.[7] In the case of the moving average simulations, each point in the blue lines corresponds to a different number of lags, which was set in the range of 2 to 12 months.[8] The results indicate that ECCU countries could adopt moving-average based frameworks for a target or preferred efficiency-social tradeoff, while fully internalizing the associated fiscal risk. As Figure 1 shows, some countries tend to maintain the domestic fuel price unchanged for extended periods despite significant international oil price variations, possibly proxying the price band framework, and without a clear internalization of the associated fiscal risk.

Annex VI. Figure 4. Fuel Price Passthrough Framework Tradeoff by Country



Sources: Data from authorities; Eastern Caribbean Central Bank, Economic Statistics Database; Eastern Caribbean Central Bank, ECCU Fuel Price Tracker; U.S. Energy Information Administration, International Database; IMF, World Economic Outlook Database; and IMF staff calculations.

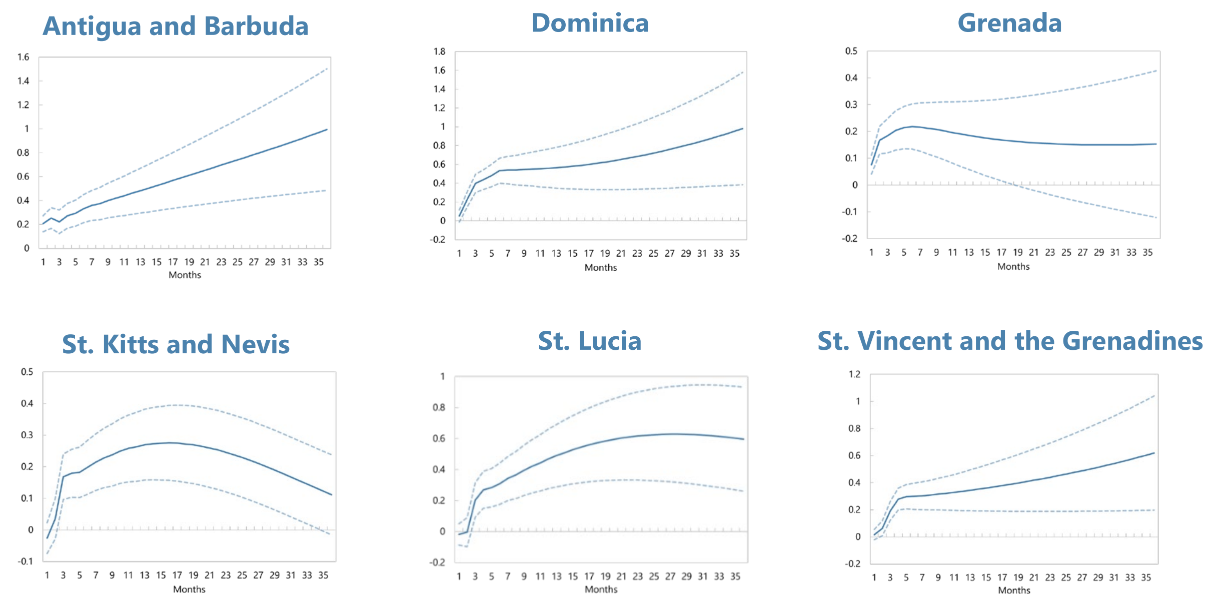
[7] The ranges of the monthly percent variation of the domestic fuel price pass though computed for each country is 3.8 to 9 percent, with increments of 1 percentage point (in St. Vincent and the Grenadines the range was set a 2.5-6 percent for empirical relevance).

[8] The number of fuel price lags used in the moving average formula is as follows: Antigua and Barbuda 2-8, Dominica 2-8, Grenada 2-6, St. Kitts and Nevis 3-12, St. Lucia 2-12, St. Vincent and the Grenadines 5-9.

7. The automatic international oil price pass through frameworks, if fully applied, would contribute to economic stabilization. ECCU countries are part of a currency union with a quasi-currency board pegged to the U.S. dollar, which implies no independent monetary policy to cushion transitory shocks. Figure 5 shows that shocks to international oil prices lead to significant and persistent increases in the consumer price indexes in all countries. This implies that smoothing the pass through to domestic prices could help stabilize domestic inflation. This can also stabilize domestic demand, as captured by the response of imports of goods (Figure 6).

Annex VI. Figure 5. International Oil Price and Inflation in ECCU Countries

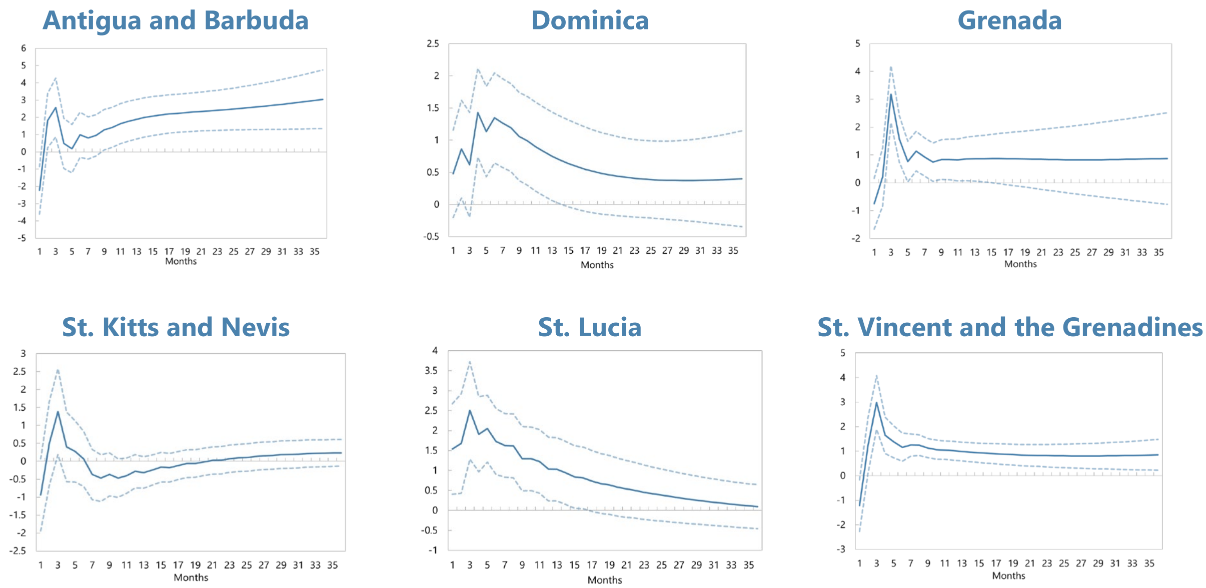
Response of consumer inflation to a one-standard deviation increase in the international oil price



Sources: Data from authorities; Eastern Caribbean Central Bank, Economic Statistics Database; Eastern Caribbean Central Bank, ECCU Fuel Price Tracker; U.S. Energy Information Administration, International Database; IMF, World Economic Outlook Database; and IMF staff calculations.

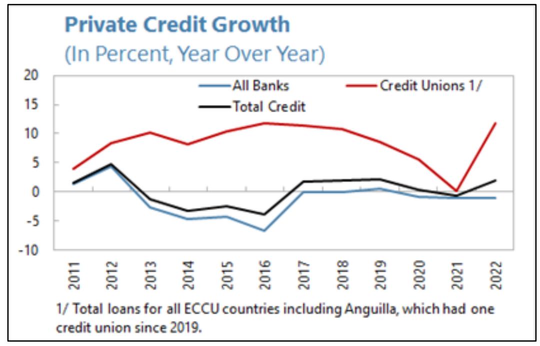
Annex VI. Figure 6. International Oil Price and Imports of Goods in ECCU Countries

Response of imports of goods to a one-standard deviation increase in the international oil price



Sources: Data from authorities; Eastern Caribbean Central Bank, Economic Statistics Database; Eastern Caribbean Central Bank, ECCU Fuel Price Tracker; U.S. Energy Information Administration, International Database; IMF, World Economic Outlook Database; and IMF staff calculations.

Annex VII. The Expansion of Credit Unions and Related Supervisory Challenges[1]



1. Credit unions are rapidly growing in systemic significance. Credit unions are responsible for almost all ECCU-region credit growth in recent years and their lending activity has again picked up after a brief slowdown during the pandemic. At end-2022, they accounted for 16 percent of ECCU bank plus credit union assets, exceeding 30 percent in one of the jurisdictions, and a few individual credit unions rival banks in size. The rapid expansion has been facilitated by a transition from traditional closed to open platform business models, where membership is no longer tied any specific community bond.[2] As such, their ability to recruit members from outside their traditional community (e.g., teachers or police) has allowed credit unions to grow in an unconstrained way. This has enabled individuals to become members of multiple credit unions, thereby risking increased indebtedness and asset quality challenges, particularly concerning when the credit bureau is not yet fully operational. In addition, some credit unions have expanded beyond their narrow market space of mortgage and consumer lending to project financing and business lending, further blurring the distinction between themselves and commercial banks.

2. Less stringent lending standards relative to banks give rise to asset quality weaknesses. The sector is characterized by NPL levels which may understate underlying weaknesses due to credit unions' high propensity to address borrower repayment difficulties through restructurings and classifying such loans as performing. In addition, most jurisdictions permit provisioning to be done net of collateral, a practice which masks credit unions' true capital position, particularly due to high uncertainty over effective collateral values.[3]

3. Absence of financial safety nets amplifies financial stability risks in the sector. ECCU households typically hold accounts in both credit unions and banks. This shared customer-base may give rise to contagion channels, such as cross defaults, especially in the absence of a fully

[1] Prepared by Sergei Antoshin and Paul Leonovich.

[2] In the six largest ECCU jurisdictions, 75 percent of the credit unions (35 of 47) operated under an open platform at end-2022.

[3] Although credit unions typically demand significant cash collateral for loans, property collateral monetization is inhibited by costly structural constraints. These include long eviction times and court processes to effect foreclosure in some jurisdictions, as well as lack of liquidity in real estate markets.

operational credit registry.[4] The lack of strong resolution frameworks and financial safety nets gives rise to potential fiscal contingent liability risks.[5]

4. Credit union oversight across the ECCU is uneven and has not kept pace with the sector's growing significance and risks. While commercial banks in the ECCU fall under the centralized supervisory authority of the ECCB, credit unions and other non-bank financial institutions (NBFIs) are overseen by individual Single Regulatory Units (SRUs) in each of the eight jurisdictions. The SRUs operate under country-specific legislation and are not uniform in their institutional framework, regulations, or supervisory approach.[6] The SRUs also face binding resource constraints. Limited staff is often spread thin to meet supervisory responsibilities over a range of NBFIs (including insurance companies, pension funds, microlenders and international banking corporations) and functions (including AML/CFT), leaving limited dedicated resources to the credit union sector.[7]

5. A 2022 Fund staff survey offers further insight into credit unions' supervisory landscape.[8] Such cross-jurisdictional comparison and benchmarking of credit union regulations and SRU supervisory approaches and capacity is a foundational step to the proposed establishment of a Regional Standards Setting Body (RSSB) and a set of sound minimum regulatory standards for credit unions and insurance companies across the ECCU region. However, it is also important to note that only three of the surveyed SRUs reported to be operationally independent, underscoring the importance of parallel national legislative changes to ensure the SRUs have adequate capacity and enforcement powers to address the growing risks in the sector.[9]

[4] The newly created credit bureau is in the process of being operationalized in four jurisdictions and is due to be expanded to include credit unions in its coverage. However, building an effective credit registry can typically take several years.

[5] There is a donor funded effort underway to establish an ECCU-wide ELA mechanism for the credit unions, though sufficient funding will be required to make it feasible. A few jurisdictions have established a legal framework for a deposit insurance scheme for credit unions, yet it would take years to achieve a level of funding to make it credible and reduce the fiscal contingent liability.

[6] While most SRUs operate as an independent agency, in one jurisdiction the SRU is a unit within the Ministry of Finance.

[7] The majority of the SRUs have fewer than one examiner per credit union. Recent years' rollout of risk-based supervisory frameworks has helped improve resource-efficiency of credit union supervision, but in frequency of onsite examinations can stretch three years.

[8] The survey was distributed to six of the SRUs (Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines) and addressed the nature of each SRU's legislative and regulatory framework, degree of operational autonomy, institutional capacity, frequency and duration of on-site exams, methodological approach to stress testing, framework for recovery and resolution, and other points. Anguilla and Montserrat were not included as each have only a single, small credit union.

[9] The other SRUs require government approval for some decisions, particularly those involving intervention of problem CUs.

6. The credit union regulatory standards currently vary across the region even in core requirements. All surveyed SRUs utilize the PEARLs monitoring system,[10] although one jurisdiction is transitioning to the CAMELS system under technical assistance provided by the Caribbean Technical Assistance Centre (CARTAC). It is critical that, whichever supervisory system is followed, financial institutions are supervised in accordance with a risk-based approach. All SRUs follow the ECCB's threshold-ratio of 5 percent as a benchmark level for NPLs relative to total loans. However, there is notable disparity in other regulatory standards, including in the definition of and required level of capital adequacy, requirements for liquidity coverage, and government exposure limits. The majority of the SRUs do not require even the largest credit unions to prepare recovery plans, and while intervention tools have been detailed in national legislation, it was noted by one SRU that forbearance is utilized to a significant extent. The SRUs indicated wide-spread use of since-expired COVID-related loan moratoria and restructurings, where practice in most jurisdictions has been to allow those loans to be classified as performing even without required performance periods.

7. SRU supervisory practices are aligned to limited staffing capacity. Exam cycles range vastly—from 18 months in one jurisdiction to three years in most—and only on a risk-based basis in one case. There is a lack of uniformity in the length of on-site exams and the number of examiners utilized. Examiners also carry out the off-site analysis function, although one jurisdiction indicated that it will be establishing a dedicated on-site examination department to separate out the roles. While all the SRUs indicated that they conduct stress tests of the credit unions, there is currently no uniformity in their methodological approach to these exercises, and only one follows a level stringency similar to the ECCB's approach for commercial banks.

8. Some of the jurisdictions are in the process of updating their legislative frameworks to provide them with better defined and/or expanded powers to oversee the NBFI sector. These are positive developments which will give those SRUs additional supervisory and resolution tools. Furthermore, some SRUs are introducing stricter capital requirements and considering higher provisioning standards, while also enforcing corrective action plans on credit unions with high NPLs. Closer inter-SRU collaboration and information-sharing on these efforts can support establishment of more uniform supervisory practices and better leverage limited SRU resources.

[10] PEARLS is an examination process advanced by the World Council of Credit Unions and measures key areas of CU operations: **P**rotection, **E**ffective financial structure, **A**sset quality, **R**ates of return and cost, **L**iquidity, and **S**igns of growth. It takes a financial indicator-based approach to comparing the operations of credit unions to each other but includes no qualitative or subjective analysis of the quality of management. Having different ratings systems utilized complicates the ability to readily compare institutions and to assess financial stability risks.

INTERNATIONAL MONETARY FUND

EASTERN CARIBBEAN CURRENCY UNION

March 21, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION ON COMMON POLICIES OF MEMBER COUNTRIES OF THE EASTERN CARIBBEAN CURRENCY UNION—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of March 12, 2024)

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. All but one safeguards recommendation have been implemented, including on further improvements in the capacity of the internal audit function and risk management. The outstanding recommendation on legal reforms to align the Agreement Act with leading practices is a work in progress.

CARTAC: CAPACITY BUILDING IN THE ECCU[1]

(As of March 12, 2024)

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 continues to implement a strong capacity development (CD) program with the ECCU countries and the ECCB. In addition to the Centre's traditional TA areas, there has been greater focus over the past two years on incorporating climate and disaster risks in various workstreams. The ongoing work is highlighted below.

A. Tax Administration

5. The tax administration program for ECCU member countries focuses on: (i) CD in tax administration core functions (taxpayer service and education, audit, compliance with registration, filing, and payment obligations); and (ii) CD in management and governance arrangements (compliance and institutional risk management, reform management, dispute resolution, organizational management, including strengthening large taxpayers' operations, ICT and data management, human resource management, and strengthening the legal framework).

6. In the area of Core Tax Administration Functions, CD was delivered to: *Anguilla* in modern audit techniques and good practices in audit management, including strengthening capacity to conduct audits of industries operating computerized accounting systems using computer-assisted audit tools (CAATs); *Dominica* in audits focusing on computerized accounting systems using modern audit techniques, including the use of CAATs; and support estimating the Value Added Tax gap; *St. Lucia* in providing advice in developing Annual Operational Plans, unit-level Functional Work Plans, monthly reporting, and training in Collection and Enforcement; *Grenada,* assisting in estimating the Value Added Tax gap; *Montserrat* in audit—analysis and interpretation of financial statements; *St. Kitts and Nevis* in the area of strengthening HQ functions, supported by a peer to peer exchange with the Tax Administration Jamaica (TAJ), VAT and Income Tax cross matching; and *St. Vincent and the Grenadines* benefited from an HQ-led CARTAC funded mission on strengthening reforms in tax and customs administration.

7. In the area of Management and Governance Arrangements, CD was delivered to: *Dominica* in compliance risk management (CRM) program and related implementation plan; *Grenada* with hands-on support cleansing the database for taxpayer information in preparation for the implementation of a new ICT system; *Montserrat* in preparing a country by country legislation to meet the minimum standard on Base Erosion and Profit Shifting (BEPS); *St. Kitts and Nevis* ICT support—data cleansing in preparation for the implementation of the new ICT system; *St. Lucia*

[1] Prepared by Azziza Trotter, Pauline Peters, Frode Lindseth, Stephen Mendes, Colin Owen, Sophia White-Givans, Petr Jakubik, Álvaro Ramírez Cárceles, Robin Youll, Consuelo Soto-Crovetto, Christian Johnson, and Nadia Spencer-Henry (all CARTAC).

delivering Leadership and Management Development (LMD) training and strengthening reform management by developing a Post TADAT Implementation Plan, and support in developing a Request for Proposal (RFP) for the procurement of a new Integrated Tax Management Solution (ITMS); and *St. Vincent and the Grenadines,* ICT support for data cleansing and training of IT officers to implement an e-filing and e-payment system. Both *St. Vincent and the Grenadines and St. Lucia* benefited from an information session on the implementation of the Tax Revenue and Customs Knowledge Exchange and Research (TRACKER) tool to support the exchange of data between governmental agencies.

8. Tax Administration Diagnostic Assessment Tool (TADAT). The coverage of TADAT in ECCU countries continues to increase. *St. Lucia* received support developing a Post-TADAT implementation plan to address areas identified for improvement from the assessment in FY22. Other ECCU countries that have expressed an interest in having a TADAT assessment and/or training conducted includes *St. Kitts and Nevis* and *Grenada*.

Text Table 1. TADAT Coverage in ECCU Countries[1]

	TADAT Training	TADAT Assessment	Post TADAT Implementation Plan
Antigua and Barbuda	FY19	FY19	
Dominica	FY20	FY21	FY21
St. Lucia	FY22	FY22	FY23

[1] There were no official TADAT engagements with *Anguilla, Grenada, Montserrat, St Kitts and Nevis or St Vincent and the Grenadines.*

9. CARTAC continues to monitor progress through the IMF's Results-Based Management (RBM) framework. CARTAC continues to monitor progress with respect to implementing recommendations from CD and to ensure that implementation targets for key recommendations are met. Material has been developed to facilitate the dialogue around RBM with country counterparts. Staff shortage and turnover still represents a risk to sustainability and continuity in the implementation of recommendations.

10. ECCU member countries participated and benefitted from several regional workshops, seminars, and webinars in FY23 and FY24:

- **Business Continuity and Disaster Preparedness Planning:** The webinar provided support to participating tax administrations and revenue authorities in emergency preparedness (evacuation procedures), business continuity, and disaster recovery through a series of training sessions, regional case studies, and exercises. The webinar benefited from presentations of examples of good practice in the region, including ECCU members. *St. Lucia* IRD provided an overview of its Disaster Management Recovery Plan, while *Dominica* IRD gave insight into its Disaster Risk Management Framework and recently undertaken disaster recovery and business continuity actions.

- **Analytical work—Enhancing Tax Administration Performance:** CARTAC conducted a study to provide descriptive information on the performance, profile, and administrative practices of CARTAC members using data from the International Survey on Revenue Administration (ISORA). The results from the study were presented to CARTAC members and development partners in a webinar on May 31, 2023.

- **The International Survey on Revenue Administration (ISORA) workshop:** Thirteen (13) CARTAC member countries participated in a regional, in-person ISORA workshop held in Barbados during September 11-14, 2023. This workshop was a joint effort between the IMF Fiscal Affairs Department (FAD) and CARTAC with the main objective of equipping attendees who are responsible for completing the ISORA Survey with an understanding of the survey questions and how the data is to be provided. CARTAC continues to support ECCU countries in maintaining ISORA data to evaluate their administrations' performance.

- **Supporting Implementation of the OECD's Two-Pillar Solution:** In collaboration with His Majesty's Revenue and Customs (HMRC's) International Relations, CARTAC organized a webinar introducing the Pillar Knowledge Sharing Network (KSN). This network aims to support the implementation of the OECD's Two-Pillar Solution by bringing together tax administration experts involved in the administration of the Pillar 2 Global Anti-Base Erosion (GloBE) rules.

- **Supporting ECCU Member Countries in Measuring the Value Added Tax Gap:** CARTAC partnered with the IMF's Revenue Administration Gap Analysis Program (RA-GAP) for a seven-week virtual workshop aimed at assisting countries in measuring the Value Added Tax Gap. The workshop applied the RA-GAP model to country-specific data and conditions. The initiative marked a significant innovation in the RA-GAP program by pioneering the one-to-many capacity development modality by engaging several countries simultaneously. Three ECCU members participated in the workshop (*St. Vincent and the Grenadines*, *Grenada*, and *Dominica)*.

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.

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 draft a new legal framework for both administrations.

14. Customs management of petroleum imports. TA has been provided to *St. Vincent and the Grenadines* and to *Grenada*. 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.

15. Building Capacity to extract, analyze and use data. TA has been provided to *St. Vincent and the Grenadines* to build capacity in the acquisition and use of data for more effective risk management and performance management.

C. Public Financial Management

Technical Assistance

16. Fiscal Responsibility. A HQ-led hybrid mission was undertaken in *Grenada* to help the authorities simplify and strengthen the fiscal rules framework. CARTAC financed both the PFM Long-Term Expert and staff from the Expenditure Policy Division who provided TA and recommendations on the wage bill target. This mission recommended a revised fiscal rules framework with a debt anchor and strengthening the medium-term fiscal framework (MTFF) as the key operational tool for achieving other fiscal targets. Grenada adopted a new Fiscal Resilience Act No. 11 of 2023 and updated both the PFM Act (No. 12 of 2023) and the Public Debt Management Act (No. 13 of 2023) to align with the new legislation.

17. Fiscal Risk Management of State-owned Enterprises (SOEs) and Statutory Bodies (SBs). CARTAC provided TA to *Grenada* to strengthen its oversight and management of both SOEs and SBs. The mission produced a comprehensive report on the financial health of SOEs and SBs, with entity-specific Appendices that each SOE and SB can use to improve its performance. The recommendations include: establishing a SOE Unit over the medium term and, in the interim, recruit the necessary capacity to scrutinize financial reporting and take necessary mitigation actions; quantifying pension contingent liabilities (CLs) in the Fiscal Risk Statement and improve coverage of SOEs and SBs over time; implementing standardized Board remuneration scales based on objective criteria with rules of operationalization; and supporting fiscal transparency and accountability by providing more resources for internal and external audit, implementing government-wide risk management, and convening the Public Accounts Committees (PACs).

18. Treasury Operations. Reviews and recommendations for improving treasury functions and practices were conducted in *Anguilla, Dominica and St. Vincent and the Grenadines*. The support focused on strengthening the key functions in treasury. The Government of *Montserrat and Dominica* reached out for support in the development of a new Chart of Accounts, both pieces of work are now completed.

19. Internal Audit. CARTAC continued to provide comprehensive support to Internal Auditors. Direct TA was provided to *Dominica and St. Vincent and the Grenadines*, providing interactive workshops, focusing on the approach to carry out an audit in line with best practices, covering internal audit planning, executing, and reporting. Two training missions were provided to *St. Kitts and Nevis* covering performance auditing and planning of the audit, over 30 auditors attended the training sessions covering both Islands.

20. Sovereign Wealth Fund and Fiscal Responsibility. CARTAC financed an HQ-led mission to support the Government of *St Kitts and Nevis* in the establishment of a sovereign wealth fund for fiscal resilience and transformation. The mission also recommended the governance structure of a proposed fund and the need for additional fiscal rules. CARTAC will provide follow up TA to, among other things, help the government operationalize the fund in the form it determines.

Regional Workshops

21. Regional Internal Audit Training Workshops. CARTAC continues to provide a series of remote workshops to support Internal Auditors, this follows on the support provided in the past two years. These workshops continued to focus on the specific challenges of auditing focusing on managing the internal audit function, risk assessment and the annual planning process and report writing. Average attendance at the events increased to over 100 people per workshop, with representatives from all the *ECCU countries*. Further workshops are planned for 2024 to continue this highly successful online training.

22. Regional Workshop on Fiscal Tools. Over the period October 24 – 26, 2023, CARTAC and FAD demonstrated the applicability and utility of a sample of FAD's Fiscal Risks Toolkit to member countries, using real and applied cases to demonstrate how the respective tools have helped to improve data analysis and inform decision-making. The tools used were the Fiscal Risk Assessment Tool (FRAT); the State-owned Enterprise Health-check Tool (SOE HCT); and the Cash Forecasting and Analysis Tool (CFAT). The case of St Vincent, which received TA in the CFAT in September 2023, was used to demonstrate the applicability of the tool. Of the 14 CARTAC countries represented, ECCU membership included: *Anguilla, Antigua-Barbuda, Dominica, Grenada, Montserrat, St Kitts and Nevis, St Lucia and St Vincent and the Grenadines*. CARTAC will seek to identify resources to support the deployment of these tools in the region, including hands on training and support for customization for the respective countries, more annual regional workshops in the use of the tools and establishment of a community of practice to facilitate dissemination and use of the tools and to share experiences and knowledge transfer.

D. Financial Sector Supervision

23. 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 related to Pillar 1 implementation.

- In February 2022, CARTAC provided follow-up TA on conducting a review (Supervisory Review Process—SRP) of the 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.

- In October 2022, CD was provided to review and provide feedback on the draft versions of several risk management guidelines. As a follow up to this technical assistance (TA), ECCB published two additional prudential standards with regards to stress testing and market risk management during 2023. This mission covered the supervision of Interest Rate in the Banking Book (IRRB) and a new prudential standard is currently being finalized for consultation.

- In FY24, ECCB requested support to review the first ICAAP submissions in the region. This TA was provided in February 2024 and comprised a blend of training sessions and collaborative discussions, culminating in the assessment of three ICAAP submissions from ECCU banks. These sessions offered valuable guidance and practical illustrations on ICAAP assessment, laying a robust groundwork for evaluating future ICAAP submissions. Additionally, they set the stage for addressing the TA request for calibrating Pillar 2 additional capital requirements, due by the end of March 2024.

- Regarding the implementation of the Pillar I Basel framework, the ECCB is set to conclude the parallel run by April 2024, thereby fully enforcing the standard across the region. This marks a significant milestone in the Basel Framework implementation. Subsequently, CARTAC will extend further assistance in FY25 by focusing on on-site methodologies to ensure compliance with the updated standard.

24. 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

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

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.

25. During FY23 and FY24, follow-up bilateral missions on RBS for the cooperative sector were conducted in *Grenada* (two missions in February and March 2023) and in *St. Lucia* (August 2023). Additional TA is planned for FY24 in the RBS framework and the assessment of credit risk in *Grenada* (March 2024) and in *St. Lucia* (May 2024). Both *Grenada* and *St. Lucia* have made significant progress in the implementation of the RBS risk taxonomy and templates. Further TA in these jurisdictions will focus on the enhancement of the existing capabilities and assessment methodologies on the most material risks for the cooperative sector, starting with the assessment of the credit quality of the portfolio and the identification of early warning signals and forborne exposures.

26. *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.

27. In FY24, *St. Lucia* welcomed additional CD missions focusing on the Own Risk and Solvency Assessment (ORSA) and the implementation of Risk-Based Supervision (RBS) within the insurance sector. The ORSA serves as a robust foundation for a risk-based capital supervisory framework for insurance companies in Saint Lucia, a process that demands significant time and effort to finalize. The CD initiatives concerning the RBS framework offered supervisors further guidance and assistance in evaluating risk matrices and templates tailored for insurance companies.

28. Single Regulatory Units (SRUs) have benefited from multilateral TA in the implementation of IFRS 17, facilitated through the Caribbean Association of Insurance Regulators (CAIR). Substantial resources have been dedicated to support the implementation of IFRS 17 for insurance contracts, which supersedes IFRS 4. New supervisory reporting templates have been devised and are currently undergoing testing through parallel run exercises in most jurisdictions. A special acknowledgment is due to Grenada, which currently leads one of the IFRS 17 implementation workstreams. However further progress is needed, as full implementation has yet to be achieved in any of the ECCU countries. Many SRUs are still deliberating on whether to grant an additional year to insurance companies operating within their respective jurisdictions.

29. 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.

30. 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.

31. 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.

32. 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.

33. 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).

34. 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 catastrophes (e.g., hurricanes). 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 climate risk supervision.

E. Financial Stability

35. CARTAC has continued to work with the ECCB on enhancing financial stability analyses and the corresponding analytical toolkit. The Bank has made progress in several areas, especially credit and climate risks. They are currently developing credit risk models that will be used for multi-period macro-stress testing in line with the 2023 TA recommendations.

- During 2017 and 2018, CARTAC provided TA to help the ECCB develop Financial Health and Stability Indicators for Insurance Sectors. In 2019, CARTAC provided training on a capital risk-based monitoring toolkit. With the COVID-19 crisis, TA on implementing and analysing stress scenarios for the insurance sector was provided.

- In 2023, CARTAC delivered CD to enhance financial stability analyses and assessments. The mission included a workshop on key aspects of the financial stability agenda covering financial stability and macroprudential policy, measuring financial stability, credit risk and stress testing, insurance and pension funds balance sheets and corresponding financial stability risks, essential elements of climate risk and interconnectedness, and contagion risk. In addition, the mission reviewed the existing financial stability report (FSR) and other relevant documents to identify existing gaps. It also included a discussion on available relevant data sources and their management. The mission provided several recommendations that covered methodological work on the financial stability analytical toolkit, enhancement of the FSR, internal and external processes and communication related to the financial stability agenda, and data sources and their management.

36. CARTAC also supports the ECCB in its effort to include climate risk in its financial stability analytical framework. Climate change is a very important risk for financial stability in the

ECCU. The CARTAC TA mission in May 2023 included some basic elements of climate risk during the discussions. This topic was further discussed in the CARTAC climate risk regional workshop in February 2024, where the ECCB contributed as one of the speakers.

37. Moving forward, the ECCB needs TA in two areas—financial stability analytical toolkit and climate risk. Regarding the analytical toolkit, the focus will be on multi-period macro-stress testing of the banking sector. The corresponding TA will likely take place during the second half of 2024. This may be followed by the climate stress testing TA in 2025.

38. The explicit financial stability mandate and data sharing of individual data should be established in the ECCB. The ECCB macroprudential mandate is currently only implicit, supported by memorandums of understanding with the national authorities, and the legislation related to the explicit mandate is still being drafted. However, regarding non-bank ECCU data, the ECCB receives only aggregates from most member countries. Based on this information, a more detailed financial stability analysis beyond banking cannot be fully conducted by the ECCB. Hence, the macroprudential mandate and the cooperation with the ECCU countries need to be clarified.

39. Macroprudential work conducted by non-banking authorities in the ECCU member countries is rather limited. The focus is mainly on stress testing for credit unions. The current reporting for insurers (not risk-based) has not allowed the authorities to conduct more extensive macroprudential work for the sector. This setup might change with the transition to IFRS17. However, the limited capacity and non-existence of macroprudential/financial stability teams will be constraints for further development in this area. Hence, the discussion on the implicit ECCB macroprudential mandate and further cooperation with the ECCB needs to be conducted.

F. Real and External Sector Statistics

40. During the period December 2019–April 2024, 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. Due to the joint external sector statistics (ESS) work program between the ECCB and the ECCU national statistical offices (NSOs), CARTAC missions on ESS are scheduled right after the ECCB missions to ECCU countries for data collection and compilation, with the objective of benefiting members of all the working teams in the most efficient way possible.

41. 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*, *Antigua and Barbuda*, *Dominica*, *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, Grenada, and Antigua and Barbuda,* CARTAC, in close partnership with PRASC, helped finalize SUTs for 2018, which were used as the basis to rebase the estimates of GDP.

42. Progress is also being made by countries to improve price statistics. Notably, in *Dominica*, *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 has continued to support a program of work to develop a Producer Price Index for services in *Antigua and Barbuda*.

43. While there were no regional training workshops during 2020–23, CARTAC has introduced some short learning modules related to national account themes. The topics for these seminars were identified following discussions with the heads of economic statistics in each member country, based on their anticipated needs. Eleven have been held to date, including an introduction to measuring GDP for new members of staff which has been run three times to cater for the significant demand; 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.

44. Supported by CARTAC, since 2017 the ECCB and ECCU's national statistical offices (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. In December 2022, the ECCB started to disseminate a table with several quarterly indicators for the balance of payments of the eight ECCU countries starting from 2019-Q4. The metadata of the balance of payments and the IIP for the ECCU countries and an advance release calendar for ESS were also released on the ECCB website to guide policy makers and data users External Sector (eccb-centralbank.org). The dissemination of these indicators is an important step towards the production of more comprehensive quarterly balance of payments and IIP, which is targeted for December 2025.

45. In FY2024, CARTAC continued working with the ECCU countries and the ECCB on source data and statistical techniques. High and persistent net errors and omissions were assessed with compilers. ESS missions addressed relevant compilation issues, some of which were aggravated by the COVID-19 pandemic. Face-to-face visitor expenditure surveys, which are data sources for the travel credits of the balance of payments, progressively restarted, but compilers confronted challenges with data-producing agencies due to delays in data processing and consistency between estimates for 2020-21 and available data for 2022-23. The compilation of direct investment and citizenship by investment transactions were also assessed.

46. In January 2024, the ECCB disseminated the backcasted *BPM6*-based balance of payments for 2000-13. When the ECCB disseminated the *BPM6*- based balance of payments and the international investment position (IIP) with data from 2014 onwards, in addition to methodological changes from the Balance of Payments Manual, 5th edition (*BPM5*) to *BPM6*, data gaps were also addressed. For that reason, the backcasting included: (i) the reclassification of time series from the former *BPM5* presentation to the *BPM6* presentation; (ii) the identification of structural breaks; and (iii) the selection of backcasting techniques to adjust historical estimates, considering data availability.

47. CARTAC will continue supporting the ECCB and the NSOs medium-term work program. This 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.

G. Macroeconomic Forecasting and Analysis

48. The main objective of CARTAC's involvement in macroeconomics within the ECCU region was centered on the analysis of debt dynamics and Nowcasting. In July 2024, a hands-on workshop was conducted with attendees from ECCU member countries. During this workshop, customized iterations of the IMF Institute for Capacity Development's (ICD) 'Public Debt Dynamics Tool' (DDT) were developed in collaboration with ECCB staff. Participants showcased a robust understanding of the tool, as evidenced by their presentations on the analysis and risk scenarios specific to their respective countries utilizing the tool.

49. Technical assistance in Nowcasting is currently under development in collaboration with ECCB staff. This assistance is focused on utilizing high-frequency data, such as monthly and quarterly data, to infer the dynamics of GDP in various ECCU countries. During the most recent mission, which took place in mid-2023, the staff successfully developed a summary page showcasing the primary outcomes of the Nowcasting (NWC) tool, enabling the generation of nowcasts for GDP in multiple countries within the region.

50. Support has been extended to *Grenada* for enhancing real sector analysis and medium-term fiscal projections. Efforts are underway to update both the real sector analysis and the medium-term fiscal framework. This involves the refinement of models for forecasting real variables and tax revenues. Furthermore, training sessions on new Macro-econometric techniques are being implemented, along with the integration of new tools in EViews.

51. Several regional events—courses and webinars—were attended by staff from the ECCB and ECCU member-country governments. Topics covered during webinars included: diversification policies; the impact of climate conditions on economic production; debt and growth; the case of climate change mitigation and adaptation in small states; and industrial policy in small economies. Courses were offered (jointly with the IMF's ICD) in the areas of nowcasting, fiscal policy analysis and fiscal frameworks.

52. Future collaborations between CARTAC and the ECCB will prioritize enhancing capacity in establishing a medium-term macroeconomic framework. In partnership with the IMF's ICD, CARTAC will assist ECCB staff in developing comprehensive macroeconomic frameworks for ECCU countries. These frameworks aim to generate cohesive projections across all economic sectors (real, fiscal, external, monetary) and incorporate various alternative and risk scenarios, including those pertaining to climate change and fiscal consolidations.

H. Debt Management

53. CARTAC, through the debt management program launched in late 2020, has engaged with ECCU countries, as well as the ECCB, on several key issues. Most 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 has had technical assistance missions to the ECCB and *Antigua and Barbuda* and *St. Lucia*. Priorities for bilateral TA have been discussed with *Dominica* and *St. Vincent and the Grenadines* and there are additional technical assistance missions planned for *Antigua and Barbuda*.

54. CARTAC has delivered one capacity-building activity targeted solely at ECCU countries and the ECCB. This mission focused on strengthening the Regional Government Securities Market (RGSM) and developing a regional retail bond market.

55. ECCU countries and the ECCB will also participate in the regional training. These will include (i) a workshop on Medium Term Debt Strategy (MTDS) development and implementation scheduled for March 18-22, 2024, in *St. Kitts and Nevis*; (ii) A workshop scheduled for June 2024 on the Low-Income Countries Debt Sustainability Analysis Tool (LIC DSA) and; (iii) a climate finance seminar scheduled for September 2024.