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**Statement by Mr. Sigurgeirsson and Mr. Damgaard on Eastern Caribbean Currency
Union
(Preliminary)
Executive Board Meeting
April 26, 2021**

We thank staff for the comprehensive report and Ms. Levonian and Ms. Edwards for their informative Buff statement. The Eastern Caribbean Currency Union (ECCU) economies have been particularly hard hit by the pandemic due to their heavy reliance on tourism. While we welcome the national authorities' efforts to contain the spread of the virus and the policy measures to mitigate the impact of the shock, we take note of the unavoidable deterioration of public finances. In this regard, the pandemic has exacerbated existing vulnerabilities and underlined the need to continue the reform efforts to strengthen the fiscal framework and increase economic diversification. **We broadly concur with staff's appraisal and offer the following points for emphasis.**

Fiscal consolidation efforts should be resumed once the crisis abates to ensure public debt sustainability. In the short term, national authorities should continue to focus on protecting lives and livelihoods by prioritizing health-related spending and economic support for the vulnerable. However, fiscal adjustments need to take place when the recovery is entrenched. We appreciate staff's analysis in Box 4, which highlights the importance of a credible debt target date based on a growth-friendly fiscal consolidation strategy. Bearing these factors in mind, we agree with the decision to postpone the regional debt target date by five years to 2035. Like staff, we also see merit in a reform package to reframe the fiscal anchor, particularly the establishment of a regional fiscal oversight entity.

We are concerned about the deterioration of banks' asset quality and encourage the authorities to monitor the situation closely, while carefully planning an exit strategy. While we recognize the need for temporary regulatory forbearance during the pandemic, loan moratoria should be allowed to expire in September 2021 as previously announced by the

Eastern Caribbean Central Bank (ECCB). Loan losses should be recognized in a timely fashion to avoid a concealed deterioration of banks' balance sheets. The authorities should consider dividend restrictions to protect banks' capitalization until the full impact of the pandemic is clear. Moreover, the authorities should consider credible and transparent strategies to support NPL reduction, including the need to identify sustainable funding options for the Eastern Caribbean Asset Management Corporation. We agree with staff that crisis management plans need to be formalized expeditiously at regional and national levels to ensure that system-wide risks can be effectively contained. On the broader financial sector agenda, we encourage the authorities to prioritize AML/CFT supervision, the development of a regional macroprudential framework, and the gradual transition toward the Basel III regulatory regime.

We welcome the ECCB's high backing ratio, which lends credibility to the fixed exchange rate regime. Given the extraordinary uncertainty, we encourage the ECCB to maintain a high backing ratio, well above the operational benchmark of 80 percent, as this would limit the risk of a currency crisis.

The authorities should implement ambitious structural reforms to enhance competitiveness and resilience. Investments in human and physical capital, along with lower regulatory burdens, could boost potential growth. At the same time, we encourage the authorities to focus on increasing resilience in relation to natural disasters, climate change, and specific economic shocks by diversifying the economies to rely less on tourism. Finally, we encourage the regional and national authorities to dedicate resources to improve the timeliness of external sector statistics to support policymaking.