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April 22, 2021

**Statement by Mr. Guerra and Ms. Arevalo Arroyo on Eastern Caribbean Currency
Union
(Preliminary)
Executive Board Meeting
April 26, 2021**

We want to thank staff for the comprehensive report and Ms. Levonian and Ms. Edwards for the helpful buff statement. The Eastern Caribbean Currency Union (ECCU) has been hard-hit by the COVID-19 pandemic and, given the reliance on tourism in many of the economies, there are important challenges ahead to support an inclusive and sustainable growth, safeguard macroeconomic stability, and build much needed resilience to climate shocks. We broadly support the staff's assessment and highlight the following points for emphasis:

- **We support the authorities' commitment to put in place, in a timely manner, concerted efforts to improve fiscal performance and achieve debt reduction goals.** We agree with the staff's assessment that the ECCU's decision to extend the regional debt target date from 2030 to 2035, should be supported by strengthening regional and national fiscal frameworks to safeguard the credibility of the revised debt anchor, particularly by adopting regional common standards to guide the pace and composition of the medium-term consolidation toward the debt target. Also, the authorities should consider the proposal to establish a regional fiscal oversight body.
- **The global uncertainty calls for the authorities to prepare scenario-based policy responses and closely following the foreign exchange movements.** This is even more important under a scenario of an increase in sovereign spreads and currency depreciation in emerging markets, particularly in those countries with more flexible exchange rates, which could erode the region's competitiveness in the tourism sector. In this regard, we commend the ECCB for maintaining the backing ratio above legal requirements by limiting credit

provision.

- **Given the regulatory support provided to financial institutions to enhance the capacity to weather the crisis, authorities should carefully balance near-term supervisory flexibility with financial stability risks going forward.** We commend the authorities' commitment ensuring that financial institutions operate within prudential benchmarks, and that the non-bank financial system follow the applicable national and regional guidelines, as stated in the Buff. Going forward, it will be important to ensure the stability of the financial system through the support of recapitalization, effective resolution strategies, optimal liquidity management, and improved information exchange.
- **We highlight the importance that the digital transformation has for the ECCU economies.** Given that the ECCB has issued the world's first retail central bank digital currency within a formal currency union, *can staff comment on the IMF's agenda to support the policy challenges related to the digital economy in the region?*
- Finally, we agree with Mr. Buissé, Mr. Rozan, and Ms. Albert that **the most important challenges of several ECCU countries will be the financing needs to implement structural reforms**, where UCT programs could play a key role to smooth the adjustment and supporting the reform agenda.