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

We thank staff for the comprehensive report on Common Policies of Member Countries of the Eastern Caribbean Currency Union (ECCU) and Ms. Levonian and Ms. Edwards for their insightful Buff statement. We concur with the staff appraisal and main policy recommendations. We also note the authorities' broad consensus with staff on the Union's macroeconomic outlook and policy proposals.

**The pandemic has taken a heavy toll on the economies of ECCU countries.** The ECCU is confronted with exceptionally difficult pandemic environment resulting in deep recession and complicating external sustainability. Financing assistance from multilateral and bilateral donors, including Fund's emergency financing helped prevent a worse outturn. While we welcome the authorities' commitment to reforms, the near-term efforts should prioritize protecting lives and livelihood while limiting permanent scaring. In this context, it is amply evident that rapid vaccine acquisition and distribution will be critical to the recovery, and authorities are encouraged to pursue that relentlessly. Once the pandemic abates and recovery is well entrenched, policies should focus on consolidation and medium-term debt sustainability to build buffers and strengthen the financial sector stability with a view to safeguard the quasi-currency board system. Accelerating structural reforms is imperative to make the economies more competitive and resilient.

**We note that the outlook is subject to significantly high downside risks.** Being micro-states, the unlikely scenario of multiple shocks to the real, fiscal, and financial sectors' fundamentals could undermine confidence, pressure liquidity and trigger capital outflows, resulting in sharp erosion of international reserves with adverse implication on the currency. Additionally, the ECCU is prone to spillover effects from instability in global financial markets related to the COVID-19 pandemic due to the tourism-dependent nature of the

economies. Staff estimates underscore the significant negative growth impulse to ECCU from global risk aversion.

**We further note that fiscal positions deteriorated sharply in 2020 and financing pressures have heightened.** While size of revenue losses varies depending on country's resilience to tourism shock, total revenue collected in ECCU declined substantially in 2020. Notwithstanding expenditure retrenchment and rebalancing, the ECCU's overall deficit widened to 5.3 percent of GDP in 2020. In that context, supporting the economy and re-anchoring the ECCU's fiscal framework to safeguard the credibility of the regional and national debt target of 60 percent of GDP, now extended to 2035, is imperative. We note staff recommendation for the ECCU to resort to the use of state contingent debt instruments (SCDI) to help strengthen debt sustainability. *Can staff comment on the ECCU's susceptibility to issuing SCDIs and the investors' potential uptake of such instruments under the prevailing crisis condition?* The persistently high debt ratio would constrain the ECCU's fiscal space, limit authorities' ability to invest in growth enhancing projects and implement policies to achieve resilience and inclusive growth.

**We welcome the supportive monetary policy stance to mitigate the impact of the pandemic,** including the liquidity injection and loan repayment moratoria and waivers of late fees. We are encouraged that, in the wake of the pandemic, the financial sector remains sound, with adequate liquidity buffers. However, a prolonged crisis scenario warrants closer attention to the financial sector weaknesses including the public sector deposit withdrawal tendencies. We commend the authorities' proposed Program of Action for Recovery, Resilience and Transformation (PARRT) that seeks to accelerate long-standing financial sector reforms while navigating around the contours of the crisis to strengthening financial stability. We note the authorities' stated policy commitment to maintain the fixed exchange rate regime, which necessitates closer attention to preserve adequate international reserves needed to anchor the quasi-currency board system.

With these remarks, we wish the authorities every success.