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

We thank staff for the report and Ms. Levonian and Ms. Edwards for their informative Buff statement on Eastern Caribbean Currency Union (ECCU).

ECCU economic growth was gradually recovering from a lackluster performance after the Global Financial Crisis. The Covid-19 pandemic hit the region hard and exacerbated other vulnerabilities in the eight member countries. As a result, the regional economic growth halted and recorded a negative figure of 16 percent in 2020, with sharper declines in the tourism-dependent economies. The possibilities for a rebound in 2021 are feasible if domestic and global uncertainties are cleared up in the coming quarters, like tourism, remittances flows, donor support, and vaccination roll out. RCF programs were valuable for the region to finance urgent needs and to catalyze resources from development partners.

The regional fiscal anchor becomes relevant at the current juncture. The fiscal deficit in 2020 was 5.3 percent of GDP, which is well explained by the loss in revenues during the pandemic and the increased expenditures on health and to support the vulnerable population during the crisis. Public debt is projected to reach 90 percent of GDP in 2021 and is a concern for the region. In the coming years, great efforts will be needed to bring back the regional fiscal anchor to manageable levels to restore a declining trend of public debt dynamics observed before the pandemic. The latter has a direct implication on protecting the quasi-currency board and to safeguard financial stability. On top of that, the possibilities of bringing more donor support for development to boost market confidence on the dynamic debt servicing capacity is warranted, as we know that growth increases and debt reduction go hand in hand.

Domestic revenue collection and which sector to tax will remain at the center of the policy discussion for quite some time. The pressing need to keep security challenges in check, enhance social protection for the most vulnerable, and improve basic infrastructure to unlock growth potential are sizeable. To fulfill all these needs, a stable source of financing is warranted. In this vein, we take comfort in the authorities' recognition and their willingness to update the regional fiscal governance framework, which aims to tackle key issues of this important anchor in order to achieve the regional target of public debt at 60 percent of GDP by 2035. The fiscal anchor has worked well since its

inception in 1998. In our view, an enhanced fiscal governance framework will boost confidence in the trajectory of the economy and the credibility of policy making. Therefore, we encourage the authorities to promote a regional oversight entity in the future, instead of a national oversight mechanism. *We are aware that the former is not in the authorities' plan at the moment, therefore, we would like to hear from staff the reason for the reluctance to establish a regional oversight entity sooner.*

On monetary policy, we commend the ECCB for proposing and implementing a Program of Action for Recovery, Resilience and Transformation (PARRT) to support the recovery and a path towards sustainable and resilient economic growth. Furthermore, the ECCB appropriately injected liquidity to the financial system and put in place an array of financial tools and measures in banks in order to better absorb the negative shock from the pandemic. The authorities acted swiftly, and credit growth continued despite difficult times. Once the pandemic abates, the authorities rightly point out that they will remain vigilant on the level of international reserves, which are now at a comfortable point, in order to protect and maintain the currency backing ratio under the quasi-currency board mechanism. Understanding the ECCB and its predecessors were able to maintain the fixed FX for more than 70 years speaks well of the mechanism in place. External buffers are essential to avoid pressure on the FX market or the risk of a sudden stop in capital inflows. We also notice that the ECCB launched "Dcash" as a digital currency and look forward to the lessons that could be learnt from this experience, the first made for a formal currency union.

The financial sector might require enhance monitoring. The scars that the pandemic will leave on the balance sheet of households and firms are not yet well known. We take positive note of the authorities' commitment to operationalize a crisis management plan, which will help resolve pockets of high risks in the financial system and in the non-bank sectors. We share the concerns of the region and the risk to financial stability that represent the loss of correspondent banking relationships (CBRs). We acknowledge the somber view of the staff's analysis, in its central scenario, where the average NPL ratio might triple in the coming years due to the tourism shock. If this scenario materializes, the banking system will certainly require more capital to comply with regulatory requirements. *Could staff share more information on the regulatory and supervisory differences between the banking system and non-bank financial system?*

With these comments, we wish the people of ECCU every success in these challenging times.