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July 25, 2022

**Statement by Ms. Medearis and Ms. Rao on Eastern Caribbean Currency Union  
(Preliminary)  
Executive Board Meeting  
July 27, 2022**

We thank staff for the informative report and Mr. Jennings, Mr. O’Brolchain, and Ms. Edwards for the helpful Buff statement. The COVID-19 pandemic devastated the tourism-dependent economies of the ECCU region, leading to significant losses in output and human capital that could reverberate across generations. Thanks to the decisive efforts of the ECCU and national authorities, an economic recovery had begun to take hold in 2021, but spillovers from Russia’s war against Ukraine and other challenges now jeopardize the durability of this recovery. In this context, we note the authorities’ serious concern, as conveyed in their Buff statement, about the impact of inflation on fiscal policy, growth, and social stability. **We concur with the thrust of the staff appraisal and offer the following comments for emphasis.**

**We share staff’s view that maintaining fiscal prudence, while protecting the most vulnerable, should guide the authorities’ policy response in the near term.** We welcome the authorities’ efforts to improve food security through developing a regional action plan. We concur with staff that the authorities should seek to allow the gradual pass-through of international energy and food prices and phase out generalized subsidies, which are costly and regressive. Any price subsidies or other administrative measures intended to address acute food and energy security risks in the near term should be temporary, and communicated as such to the public. In general, we encourage the authorities to target enhanced social assistance support directly to the most vulnerable. We welcome the authorities’ recognition of the need to reset fiscal parameters as the crisis abates and recovery takes stronger hold. In this context, we encourage the authorities, over the medium term, to evolve the composition of fiscal spending to facilitate more dynamic and inclusive growth, including through implementing active labor market policies. We also encourage further efforts to develop fiscal rule frameworks, particularly since some member states have already indicated they may not be able to adhere to the 60 percent debt-to-GDP ECCB target by 2035.

**We encourage the authorities to remain vigilant about risks to the financial sector as they unwind pandemic emergency measures.** We are concerned about potential further growth in the level of NPLs following the expiration in March 2022 of pandemic-related loan moratoria, and we urge the authorities to monitor these risks carefully. We encourage the authorities to closely consider staff's recommendations related to DCASH, including staff's view that the authorities enhance DCASH's operational resilience and establish a robust project management governance framework. We echo staff calls for a renewed emphasis on support for private sector credit growth. We welcome initiatives to address credit constraints faced by micro-, small-, and medium-sized enterprises (MSMEs), particularly given their critical link to women's economic empowerment.

**The authorities' proactive efforts to mainstream climate and natural disaster preparation into their macro-fiscal framework are crucial for the region's economic resilience, and we encourage their robust implementation.** We encourage member states to fully implement Disaster Resilience Strategies (Dominica and Grenada) and update adaptation and disaster plans (Antigua and Barbuda, Grenada, St. Lucia, St. Vincent and the Grenadines). We welcome the ECCB's advanced work to strengthen supervision, reporting, and regulatory frameworks against climate change risks to enhance financial sector resilience, and echo staff's recommendation to integrate physical climate risk scenarios in crisis management plans. We are pleased that the authorities are seeking to accelerate their plans to transition to greater use of renewable energy, including increasing investments in wind, solar, and geothermal energy systems. Additionally, we agree with staff on the importance of ECCU countries carving out more fiscal space in the medium term for natural disaster response, recognizing this should not come at the expense of short-term responses to external shocks.

**We encourage ECCU countries with high debt levels and large gross financing needs to consider engaging with the Fund on UCT-quality programs to anchor reforms, facilitate potential access to the Resilience and Sustainability Trust (RST), and put their economies on more sustainable paths.** We welcome the critical emergency financing and capacity development support that the Fund provides to ECCU countries. We could see benefit in some ECCU member states entering into UCT-quality programs that can provide the support and structure for the authorities to implement strong reform programs to restore fiscal and debt sustainability over the medium and long term. The RST could complement these programs. On this point, we note the authorities' and staff's expectation that the RST could help catalyze access to climate funds and other financing sources. While still early in the design stage, we view the RST's catalytic role focused on helping to integrate climate into the macro-fiscal framework, thereby providing the enabling policy environment for climate projects from the multilateral development banks, climate funds, and other development partners to take hold. *We invite staff to elaborate on how the RST could play a catalytic role in small island countries, such as those in the ECCU.*