



**Executive Board Minutes 21/40-2**

April 26, 2021–10:41 a.m.

**Eastern Caribbean Currency Union—2021 Discussion on Common Policies of Member Countries**

Documents: SM/21/41 and Cor. 1 and Sup. 1

Staff: Steinberg, SPR; Munoz, WHD

Length: 55 minutes

ISSUED: September 23, 2022

APPROVAL: September 30, 2022

CEDA OGADA  
Secretary

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<sup>1</sup> Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Transparency Policy and Open Archives Policy.

## THE ACTING CHAIR'S SUMMING UP

Executive Directors agreed with the thrust of the staff appraisal. They noted that the COVID-19 pandemic has had a significant impact on the Eastern Caribbean Currency Union (ECCU) economies and commended the authorities for their swift policy response to mitigate its socio-economic toll. Directors also noted that emergency financing from the Fund and other IFIs has helped some economies in the region cope with the fallout from the pandemic. They agreed that the near-term policy priority is to protect lives and livelihoods, including through continued support to the vulnerable and efforts to maximize COVID-19 vaccination. Noting that the region's growth outlook is subject to considerable risks, Directors recognized that careful balancing, as well as continued engagement with international institutions, including the Fund, is important to ensure sustainable inclusive growth, while safeguarding macro-fiscal sustainability.

Directors took note of the postponement of the regional debt target date by five years and emphasized that this should be complemented by further enhancing regional and national fiscal frameworks to ensure that the target continues to serve as an important fiscal anchor for the region. In this regard, they welcomed the progress made by several countries on adopting rules-based fiscal frameworks. Efforts are needed at both regional and national levels to further strengthen fiscal policies and institutions to safeguard the credibility of the revised debt anchor.

Directors noted that measures by the regional and national authorities have effectively helped soften the immediate financial stability impact of the pandemic. Going forward, near-term supervisory flexibility should be balanced with measures to support financial institutions' capacity to weather the crisis, including limiting moratoria extensions within the time frame announced by the ECCB, ensuring loan restructurings follow realistically achievable repayment terms, and encouraging capital conservation until the full impact of the pandemic is clear. To ensure system-wide risks can be effectively contained, Directors encouraged the authorities to expeditiously formalize readily implementable crisis management plans at regional and national levels, clearly identifying the necessary coordination, enforcement, and legal requirements.

To ensure the financial system's longer-term ability to provide credit and support the regional economy, Directors encouraged the authorities to start considering credible and sustainably funded strategies to support reduction of non-performing loans, which are expected to increase from their already elevated pre-pandemic levels. They also agreed that the ECCU's broader financial sector reform momentum should be maintained, while ensuring implementation timelines avoid unduly burdening supervised institutions in the post-pandemic environment. Directors stressed the importance of addressing gaps in the supervision of non-banks, improving AML/CFT framework, and further mitigating CBR risk.

Directors supported ECCB's prudent practice to keep the backing ratio at a robust level, which is critical to safeguard the quasi-currency board arrangement. The heightened external risks call for enhanced monitoring of foreign exchange movements and preparation of policy responses to downside risks.

Directors also encouraged the authorities' continued pursuance of structural reforms to make the ECCU economies more competitive and resilient, including through digital transformation. They called for continued efforts to build resilience to climate-related shocks.

Directors noted with concern the ongoing volcanic eruptions in St Vincent and the Grenadines and its social and economic impacts, and highlighted that, where possible, Fund assistance would be helpful.

Directors agreed that the views they expressed today will form part of the Article IV consultation discussions with individual ECCU members. It is expected that the next common policies consultation with the ECCU will be held on the standard 12-month cycle.

**EXECUTIVE BOARD ATTENDANCE<sup>2</sup>**

T. Zhang, Acting Chair

**Executive Directors**

A. Bevilaqua (BR)

L. Levonian (CO)

P. Trabinski (SZ)

**Alternate Executive Directors**

O. Odonye (AE)

F. Sylla (AF)

B. Lischinsky (AG), Temporary

A. Grant (AP)

Z. Zhang (CC)

R. Moral Betere (CE), Temporary

C. Just (EC)

P. Rozan (FF)

K. Merk (GR)

Y. Indraratna (IN)

M. Massourakis (IT)

K. Chikada (JA)

K. Osei-Yeboah (MD), Temporary

A. Alhosani (MI)

T. Manchev (NE), Temporary

J. Sigurgeirsson (NO)

A. Tolstikov (RU), Temporary

B. Alhomaly (SA)

F. Mochtar (ST)

D. Ronicle (UK)

S. Senich (US), Temporary

G. Bauche, Acting Secretary

H. Malothra, Summing Up Officer

E. Manfred, Board Operations Officer

L. Nagy-Baker, Verbatim Reporting Officer

**Also Present**

Communications Department: D. Sharrock. Fiscal Affairs Department: K. Tee. Finance Department: L. Chidawaya, M. Mohlala. Legal Department: C. DeLong, R. Sykes. Monetary and Capital Markets Department: G. Hosin nee Heywood. Strategy, Policy, and Review

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<sup>2</sup> For countries in each constituency, please see the Constituency Codes in the annex.

Department: M. Hengge, C. Steinberg. World Bank Group: A. Prasad. Western Hemisphere Department: B. Bakker, V. Chensavadijai, D. Ding, E. Fernandez Corugedo, A. Guerson, J. Hukka, K. Ishi, S. Munoz, M. Shamloo Gorjaee, K. Srinivasan. Executive Directors: A. Andrianarivelo (AF), S. Bhalla (IN), I. Mannathoko (AE), M. Mahmoud (MI), P. Moreno (CE), M. Mouminah (SA), A. Mozhin (RU), R. von Kleist (GR). Alternate Executive Directors: H. Azal (EC), M. El Qorchi (MD), F. Fuentes (BR), S. Geadah (MI), A. Guerra (CE), W. Nakunyada (AE), R. N'Sonde (AF), F. O'Brolchain (CO), L. Palei (RU), B. Saraiva (BR). Senior Advisors to Executive Directors: W. Abdelati (MI), H. Andrianometiana (AF), M. Choueiri (MI), J. Damgaard (NO), J. Garang (AE), B. Jappah (AE), C. Quaglierini (IT), A. Sattler (GR), L. Smith (CO), G. Vasishtha (CO), R. Velloso (BR), J. Weil (CO), M. Zhunusbekova (SZ). Advisors to Executive Directors: M. Albert (FF), F. Al-Kohlany (MI), P. Al-Riffai (MI), A. Arevalo Arroyo (CE), E. Boukpassi (AF), K. Carvalho da Silveira (AF), J. Corvalan (AG), K. Dacharux (ST), R. Edwards (CO), J. Essuvi (AE), D. Fadhel (MI), K. Florestal (BR), T. Iona (AP), H. Koh (GR), K. Kuretani (JA), R. Makhammadiev (SZ), M. Merhi (MI), P. Mooney (CO), B. Piasecki (SZ), B. Rankin (CO), F. Rawah (SA), A. Zaborovskiy (EC), Y. Zhao (CC), A. Clark (UK).

**DISCUSSION RECORD<sup>3</sup>**

*The Acting Chair (Mr. Zhang):*

First, I would like to express my deepest sympathies to the government and the people of Saint Vincent and the Grenadines for the devastation caused by the volcanic eruptions. The Fund is committed to helping the countries and the region in every possible way. The Eastern Caribbean Currency Union, the ECCU area, is a tourist-dependent economy, which has been hit very hard by the COVID pandemic. With financing support from the international community, including the Fund, the ECCU authorities have swiftly implemented various measures to limit the socioeconomic fallout from the pandemic. Nonetheless, the economic recovery is projected to be very slow and subject to exceptionally high uncertainties related to vaccine access and the recovery of international travel in general. This obviously poses significant policy challenges in the area, particularly for the authorities to support the economic recovery while safeguarding the macro sustainability and financial stability. Obviously, looking ahead, the continued strong support for the international community, including us and other development partners, will be needed to help the region in this very challenging period.

*Ms. Levonian:*

Let me just begin by expressing gratitude to staff, especially Western Hemisphere team for their comprehensive reports, for the answers to the questions of Executive Directors, and for their truly open and valuable discussion with our authorities. I also just want to thank Board colleagues for the constructive and insightful remarks in their grays.

I think there is a consensus that the ECCU has been hit hard by the pandemic and that recovery could be protracted if the pandemic is not brought under control. My ECCU authorities broadly concur with staff's assessment on the main challenges and are committed to taking steps to address them. They recognize the need to address debt sustainability issues, strengthen resilience to external shocks, and pursue a development path that fosters inclusive and sustainable growth.

We have issued a buff statement, so I will just raise four points. First, addressing vulnerabilities and access to financing are key to the success of the ECCU region. The ECCU states are subject to several hazards—hurricanes, pandemics obviously, and now volcanic eruptions—all of which can occur, unfortunately, concurrently. The Fund must be better positioned to meet the needs of all of its membership, and it is clear at the time that the toolkit does not adequately meet the needs of member states of the ECCU, but we continue

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<sup>3</sup> Edited for clarity.

to work with our authorities to determine how Fund facilities can be of optimal benefit.

That said, we do appreciate very much the work that is ongoing, and we are currently in discussions with staff on the possibility of an RCF for Saint Vincent and the Grenadines due to the devastating volcanic eruptions. The amount of funding that is likely to be available is relatively small given the limitations I alluded to. Considering the urgency with which financing support is required, we could seek the support of the Board in accelerating the process for a Board discussion should it be necessary to do so.

Second, our authorities acknowledge that intensified fiscal consolidation is required to achieve the regional debt-to-GDP target of 60 percent by the revised date of 2035. The challenge for our authorities is to design a framework that targets the achievement of sustainable fiscal outcomes and at the same time is sufficiently flexible and allows them to respond adequately and in a timely manner to recurring shocks.

Third, our authorities will continue to improve regulation and supervision of the financial sector. In that regard, the ECCB proposes the establishment of a standard-setting body as part of the optimal regulatory framework for the financial system. The ECCB intends to engage staff on this initiative very soon.

Fourth, preserving correspondent banking relationships (CBRs) has been a major priority for the region. While it has stabilized in recent past, our authorities are now very nervous that the risk of termination may again be brought to the forefront due to evolution of different regulations. We consider it necessary that there is a level of stability in the global AML/CFT regime and an appreciation of the costs faced by small states in trying to meet the requirements of an ever-changing regime.

*The staff representative from the Western Hemisphere Department (Ms. Munoz):*

We have responded in writing to all the questions raised by Directors, including those pertaining to the high uncertainty in the outlook due to the pandemic, fiscal support, and re-anchoring the fiscal framework, safeguarding financial and external stability, digitalization, correspondent banking relationship risks, and natural disasters. Therefore, during my intervention, I would like to comment briefly on updates on the volcano eruption in Saint Vincent and the Grenadines and the recent issuance of the Eastern Caribbean Central Bank (ECCB) digital currency (CBDC).

A few Directors asked for an update on Saint Vincent's outlook in light of the recent volcano eruption. As of this morning, the island is still under a state of emergency as frequent explosions continue. The ongoing

explosive volcanic eruption has created a humanitarian crisis as the country grapples with the fallout from the global pandemic. The riskiest area house around 20 percent of the population, of which the majority are vulnerable households with a great concentration on agriculture and livestock activities. Almost 13,000 people are registered in public and private shelters, and the health and humanitarian emergency could be amplified if COVID-19 cases resurge due to inability to properly social distance.

There have been temporary disruptions to energy and water supplies and other sectors due to ash accumulation. The duration of explosive eruptions is highly uncertain and could last from weeks to months. As mentioned in our written responses, the economy is now expected to contract by 5.5 percent in 2021, detracting around 0.7 percent percentage points from region-wide ECCU GDP growth. Staff does anticipate significant spillovers from the volcanic activity to other ECCU countries if the direction of the winds and the height of the explosions continue the same way.

The initial explosive eruptions during April 9 to 14 pushed volcanic material, notably ash, up to 14,000 feet. At those altitudes, the wind direction is primarily eastward. As a result, the ash fall was significant in Barbados, and ash was found to have reached as far as North America, forcing temporary airport closures in Saint Vincent and the Grenadines, St. Lucia, and Barbados, while several flights were cancelled and rerouted in neighboring countries. Subsequent explosions below 32,000 feet have tended to spread westward and have been more dangerous for Saint Vincent as they create flows. Prolonged explosions could further disrupt trade channels in the region and therefore negatively affect economic growth. As Ms. Levonian said, the staff has had close engagement with the authorities of Saint Vincent and the Grenadines with a view of providing emergency financial support.

Several Directors asked for an update on the ECCB's central bank digital currency. As outlined in the last ECCU Consultation Report and Selected Issues Paper, the rollout of a pilot of the ECCB's central bank digital currency, DCash, was expected to take place in April 2020. Due to the pandemic, the issuance was postponed to March 31 this year, after our mission took place. The launch makes DCash the first central bank digital currency of a monetary union in the world. The Caribbean region remains a pioneer in this area, following the launch of the first central bank digital currency last year in Bahamas.

During the last ECCU regional Article IV consultation, staff advised the authorities to proceed cautiously and fully implement safeguard measures to contain various and not fully known risks to the ECCB and the financial system, including those related to financial intermediation, financial integrity, cybersecurity, and data and privacy governance. Staff will continue to engage closely with the authorities in this area and encourages them to conduct a

comprehensive cost and benefit analysis at the conclusion of the pilot. The ECCB is planning to review the results of the pilot, and our MCM colleagues are assisting informally basically to design two surveys, at the launch and at the end of the pilot.

*Mr. Massourakis:*

We issued a gray statement; I can be brief today. Given the high exposure of ECCU countries to natural disasters, climate change risks, and dependence on tourist activities, we see great value in staff's elaborations on state-contingent debt instruments, as analyzed in Annex IV of the staff report. State-contingent debt instruments can be valuable options to contain macroeconomic risks while also addressing fiscal vulnerabilities. We appreciate staff's analysis on correspondent banking relationships and encourage staff to advise the authorities about how to prevent those risks, although we take positive note that there are no signs that the phenomenon has happened during the pandemic.

We concur also about the need to strengthen financial regulation and to implement a centralized AML framework in the banking system. Higher transparency and strengthened governance frameworks would be warranted also in relation to the Citizenship by Investment programs, which represent an important source of revenues for public budgets in the ECCU countries.

Finally, we encourage strengthening economic data provision, including external sector statistics, as such provision is essential for good policymaking.

*Ms. Grant:*

We issued a gray statement; I would only like to touch on two issues.

There is significant uncertainty around the path of the pandemic with stop-start patterns to contain the spread of the virus. In this environment, it is important that fiscal policy remains nimble and flexible to help vulnerable households and firms in a targeted manner while maintaining credible medium-term fiscal frameworks. The Fund's advice must be tailored to individual country circumstances based on available policy space and the structure of the economy.

Small developing states in the Caribbean have been hit particularly hard by the pandemic given the sudden stop in tourism, limited fiscal space, and a limited ability to borrow. The Fund must continue to consider how to better assist our smallest members, especially as the Fund's UCT programs do not provide adequate resources to fill the large financing gaps for small

developing states. These financing gaps are exacerbated by the need for small developing states to adapt to climate-change challenges.

Another important issue for small developing states is correspondent banking. While the papers highlight that the pandemic has so far not had any adverse effects on correspondent banking relationships, this remains a source of vulnerability. The Fund can play an important role in technical assistance and with the coordination of efforts by other multilateral agencies, and we encourage continued engagement on the issue.

*The Acting Chair (Mr. Zhang):*

Ms. Grant, indeed, these are very important issues, and a few of the points, such as the resources access and correspondent banking relationships, are things we have been working with for quite a bit of time already. We will listen to staff how to proceed and make the work more effective.

*Mr. Merk:*

We issued a comprehensive gray statement; I can be brief.

We agree with staff that in the short run, ECCU countries should focus on controlling the pandemic, acquire a maximum of vaccine doses, and try to safely reopen the economy for tourist inflows, as was also implied in opening remarks we heard today. Once the pandemic subsides, the countries face the challenge to strengthen their external competitiveness and resilience through structural reforms, more targeted investments, and fiscal consolidation, while protecting the vulnerable.

On the last point, the fiscal consolidation, we agree with staff that the revision of the medium-term fiscal anchor should be accompanied by additional measures to preserve its credibility. Those measures should include a strengthening of fiscal frameworks through robust common standards for national fiscal policies and an independent fiscal oversight body. Due to the high level of vulnerability of the countries to natural disasters, and we heard just about it and the climate-related risk, resilient strategies could make an important contribution towards more sustainable public finances over the medium term.

*Mr. Mochtar:*

We have issued a comprehensive joint gray statement with Mr. Chikada and Ms. Grant that broadly welcomes staff appraisal and the recommendations. We would like to offer a few points for emphasis.

First and foremost, we echo other Directors that every effort should be made to contain the pandemic. With the resurgence of COVID-19 cases after the broad reopening, we view that the faster pandemic control is not only safe to lives and livelihoods, but also put the recovery on a firmer footing where the economies mostly depend on tourism.

Second, fiscal policies should remain on the central strategy of the pandemic responses. We note the authorities are facing financing constraint pressure due to the declining revenue collection and competing spending demands. We, therefore, agree with staff on the need to rationalize nonessential spending, as well as securing additional fiscal room through putting forward a credible target for public debt. In this regard, we welcome staff recommendation to delay the regional debt target from 2030 to 2035, which provides the needed fiscal room to support growth, as well as a credible anchor to hold up the confidence.

Last, close monitoring on the risk of rising non-performing loans (NPLs), including the impact of the ongoing tourism contraction is warranted. In this context, we support the authorities' effort to review the strategy to address the risks that it could pose an impact on the banks' financial health, credit growth, and essentially the risk to the financial contingent liabilities. We encourage the authorities to prepare in advance, including early ways to reduce travel effects, while also advancing the financial sector reforms, especially insolvency framework.

*Mr. Odonye:*

We issued a gray statement concurring with staff that the ECCU has been severely impacted by the pandemic on the back of the restrictions to tackle the virus, and prudent policy measures are necessary going forward. I will make one more comment, which is also peculiar to many other countries across the globe.

We note that the economic recovery remains susceptible to significant downside risks despite improvements in partner countries. Further interventions by the authorities are warranted, which will increase pressures on the fiscal stance, and this has already weakened the environment, including the contraction in tourism and the challenges coming from the climate change. Given the protracted infections and uncertain path, we would appreciate staff's comments on the preparedness of individual country health systems and the arrangement for contingency vaccines. Staff's view would also be welcome on the adequacy of buffers to respond to a possible major blowout when gradual mutations of the virus have defied containment and therapeutic measures, as seen elsewhere around the world.

*The Acting Chair (Mr. Zhang):*

Before we proceed, let me acknowledge Mr. Sylla's comments sent through the chat box. He just wants to express his sympathy and solidarity to the people of the island affected by the eruption of the volcano. He thanks management and staff for their engagement with the authorities and calls on management and staff to stand ready to assist them as soon as possible.

*Mr. Ronicle:*

On the latest developments in Saint Vincent, like Mr. Sylla, we extend our deepest sympathies and support. We issued a detailed written statement in response to the staff report. I do not want to repeat those points today, but I would like to make a couple of remarks about Anguilla and Montserrat, which are British Overseas Territories that account for two of the eight members of the ECCU.

Anguilla is a prosperous territory with an economy based primarily on tourism. It has handled the pandemic well. Public health measures, including lockdowns, have limited infections and resulted in zero deaths to date; but those measures came at a substantial cost given the prominence of the island's tourist industry, and GDP is expected to have contracted by an astonishing 27-3/4 percent in 2020.

The authorities responded with ambitious financial policy measures, providing support to the unemployed, vulnerable, small businesses, and health sector. As a consequence, the fiscal position swung into deficit, and debt has risen by 20 percentage points of GDP. These circumstances undermined Anguilla's usual fiscal independence, and the UK government has stepped in to provide emergency grant financing to support the authorities.

Looking ahead, the UK is committed to providing vaccines for the entire adult population, and a vaccine rollout program has been in place since the start of the year, with around 40 percent of the population having received at least one dose. Based on successful vaccine rollouts and a reopening of tourism, the Anguillan authorities are optimistic for a strong recovery in 2021. That, alongside a range of fiscal reforms, should allow them to widen down their use of emergency grant financing.

Turning to Montserrat, the series of volcanic eruptions beginning in 1995 left more than half of the island, including its former capital, uninhabitable and led to extensive outward migration and a large drop in population. Montserrat pursued similar public debt health measures to Anguilla and has similarly managed to largely contain the pandemic. Its smaller tourism sector has also meant a smaller economic impact than in Anguilla. Montserrat starts from a lower base with the UK already funding

around 60 percent of the budget prior to the pandemic. The UK stepped up its financial support in 2020, supporting the authorities and implementing a range of business continuity and social support services to assist the island's population.

As with Anguilla, the UK is committed to providing vaccines to the entire adult population, and so far, around one quarter of the population have received at least one dose. Overall, Montserrat has weathered the pandemic much better than initially expected, and a successful vaccine rollout alongside ongoing investment gives the authorities an optimistic outlook for the future.

*Mr. Just:*

To the very rich discussion in Directors' gray statements, we would like to add a few points.

For the ECCU, tourism remains macrocritical in all projections. We see some merit in staff's sober baseline. However, in order for it not to materialize, more progress on vaccine availability for ECCU member countries, including under the COVAX facility, is critical. Mr. Ronicle's comments that the UK will make vaccines available and has already made some available, is very much welcome.

Overall, focusing policy efforts on advancing the recovery seems more beneficial than on policy tightening. However, this would require that ECCU members can agree on a medium-term fiscal framework, both at a national level, reinforced at a regional one. We welcome that the ECCU authorities share staff's sense of urgency in advancing contingency planning, AML/CFT supervision, and NPL resolution. Given the progress of PICs and the strong interest in digital currency, we urge the authorities to take financial integrity issues particularly to heart even if it is costly. It is better to be safe than sorry.

We positively note that most ECCU countries are able to finance their budget deficits for the current fiscal year, and for those that may still face challenges, UCT-quality arrangements are being actively explored.

In light of the eruption of the volcano in Saint Vincent and the Grenadines, emergency financing should be considered in line with the Fund's policies. We encourage staff to remain closely engaged with the authorities.

*Mr. Zhang:*

I would like to join other colleagues to express my sympathy and solidarity to the people of the islands affected by the eruption of the volcano. In addition to our comprehensive gray statement, I would like to emphasize the following three points.

First, on vaccination, the Caribbean region is highly dependent on the tourism sector, and we believe the virus variant is spreading very fast and only full vaccination can contain the pandemic, so we wish the authorities in this region to step up their speed and efforts to vaccine rollout across all the member countries.

Second, on the correspondent banks, the Caribbean region has long been affected by the de-risking of banks related to international payment services, so we wish the authorities in this area to step up their efforts in anti-money laundering and the antiterrorist financing, especially to upgrade the standard and rules to catch up with the international norms.

Third, on the DCash, we are interested in the introduction of the digital currency in the ECCU, and we wish the staff could more frequently engage with the authorities to follow up the experience and come back in the next year's consultation staff report could have more detailed report on this aspect.

*Ms. Indraratna:*

We have issued a detailed gray statement; therefore, our remarks are for emphasis only. We see scope for further strengthening and advancing regional cooperation. Given the common shocks facing countries in the ECCU region, deeper policy integration amongst the ECCU countries would enhance their resilience and strengthen macroeconomic stability. Stronger fiscal coordination and cooperation is essential to place public debt on a firm downward trajectory. We see merit in the postponement of the regional debt target of 60 percent of GDP to 2035, as this will provide the near-term fiscal space needed to support the economic recovery and the space for public investment. We concur with the staff that improvements to national fiscal frameworks and rules would be key to the success of the resale regional anchor. We support the staff's recommendation for a regional oversight entity which could also assist members with technical support on fiscal policy matters.

We encourage the Fund to continue with the provision of technical assistance to national authorities to build up capacity, including on national disaster resilience strategies and state-contingent debt instruments. Safeguarding financial stability is a priority, and regional cooperation is essential to contain system-wide risks. We stress the need to monitor asset quality in the financial sector, as the region is expected to have significant NPLs. Accordingly, strategies to improve asset quality should be considered, including legal frameworks for asset recovery. We concur with staff that crisis management plans need to be expeditiously implemented at regional and national levels to contain systemic risk.

Progress on structural reforms is essential to boost growth and improve competitiveness. We will welcome the ECCB Program for Action for Recovery, Resilience and Transformation (PARRT) and the implementation of this program both at the national and regional levels. This will help the recovery process while moving the region towards resilient, sustainable, and inclusive economic growth.

Lastly, we express our sympathies to the islands affected by the volcanic eruption.

*Mr. Bevilaqua:*

Allow me to start by extending our solidarity with the government and the people of Saint Vincent and the Grenadines and the neighboring countries that are affected by the eruption of the volcano. This unfortunate event is another reminder of the vulnerability of the Caribbean region, which is often hit by multiple shocks at the same time, in this case featuring the compound effect of a natural disaster with the COVID-19 pandemic. We issued a comprehensive statement, and I will make three brief comments for emphasis:

First, greater solidarity from the international community remains paramount. The ECCU countries, like the rest of the Caribbean, have been severely hit by the economic fallout of the pandemic, and securing access to vaccines is essential for the tourism industry to reopen and recover. Furthermore, these shocks have exacerbated these countries' dire fiscal situation, marked by limited fiscal space and rising public debt. Therefore, we reiterate our support to the authorities' call for the international community to provide greater technical and financial assistance to preserve ECCU's macroeconomic stability, develop sound financial systems, and ensure sustainable, inclusive growth while building resilience to natural disasters. We also want to seize this opportunity to call for greater access to concessional financing for small developing states and more equal and affordable access to vaccines.

Second, we agree that continuing to support lives and livelihoods in the near-term must remain a priority and maintaining support to the vulnerable is of utmost importance going forward. Given the elevated debt levels, we encourage authorities to strengthen fiscal frameworks as the recovery takes hold and continue to prioritize concessional borrowing to preserve fiscal and debt sustainability. In the same vein, we welcome the ECCB's plan to implement the Program of Action for Recovery, Resilience, and Transformation to help support the recovery process and pursue sustainable and resilient economic growth.

Finally, we are also pleased that the authorities are committed to improving the AML/CFT framework and adopting global regulatory standards

to prevent further loss of CBRs. Greater oversight of the financial sector is needed to mitigate risks, including the increases in NPLs. Exploring strategies to resolve the legacy NPL problem merits consideration. In that vein, we welcome the Fund's continued support to the ECCU economies through technical assistance and capacity development and encourage staff to remain steadfast in their efforts and provide the necessary TA to lead these economies to a sustainable economic recovery.

*The staff representative from the Western Hemisphere Department (Ms. Munoz):*

I would like to respond to two questions that we got from the Directors. Let me start with the one on vaccination, and then I would speak on correspondent banking relationships.

On the vaccines, as we mentioned in the technical answers, the ECCU countries expect to receive vaccines under the COVAX facility for 20 percent of the population. On April 22, the percentage of population that has received the first dose ranges from around 10 percent in Grenada to almost 41 percent in Anguilla. Countries have also received limited numbers of doses from China, India, and Russia.

The sudden deterioration in India may affect supplies of vaccines to COVAX, which relies heavily on India-produced vaccines, which in turn might affect the pace of vaccination in the ECCU. Several Caribbean countries have appealed to the US administration to share its stockpile of vaccines with the region. In this regard, a more rapid and equitable global distribution is critical for a broad-based recovery in these countries. Countries have made significant progress on preparing this. Following protocols recommended by international and regional health institutions, and capacity has been increased, including in the adaptation of quotas for quarantine and medical attention. There has been also an expansion in existing health facilities for quarantine purposes and for the intensive care. Healthcare capacity remains limited in those countries, underscoring the importance of containing the spread of the virus in the region.

The authorities are mindful of this and remain vigilant and flexible to intensify and relax contagion-prevention measures as needed as warranted. As mentioned in the staff report, protecting lives and livelihoods remains the near-term policy priority. The immediate priority is to strengthen hospitals, intensive care, testing capacity, vaccination distribution, of course, and health and hygienic protocols have reduced concerns of potential tourists to support a quicker rebound of tourism.

Fiscal buffers are low in a few of the countries, particularly in Antigua and Barbuda, Saint Lucia, Saint Vincent and the Grenadines now with the eruption of the volcano. Fund staff is engaged with the authorities of those

countries and are working on possible arrangements to address, identify the fiscal gaps in a sustainable way. Our teams are working bilaterally with the authorities, and we can provide more details of the status of the discussion in the individual Article IV consultations.

On correspondent banking relationships, as mentioned also in our responses, the Fund staff continues to implement a multipronged approach to address CCBR pressures impacting the membership, and this involves monitoring the trends, the risks, the drivers, including the context of surveillance, facilitating dialogue, tailoring our technical assistance and training, and discussing measures as needed in the context of IMF-supported programs.

On the level of the ECCU, there are a few recommendations that they remain priorities to address a possible increase on those risks that so far, as we mentioned, in the pandemic have not materialized. There are a few things that the ECCU countries could do. The passage of all ECCU member countries of legislation and implementation of frameworks approved by the monetary council for strengthening AML/CFT and international taxation regimes and continued strong cooperation to address these frameworks is necessary. Also, ensure banks have accessible and readily usable data and capacity for their own internal transaction monitoring and strengthening the ECCU capacity as well. Continued close monitoring and oversight of those risks, targeted reporting for banks is also a priority, and implementation of the TA support that was given by the Fund on monitoring tools, and, importantly, also continuing engagement and support with the international community.

*The staff representative from the Strategy, Policy, and Review Department (Mr. Steinberg):*

I can just note that we hear Directors' concerns about appropriate financing for small states from several Directors today. I can share that staff is currently working on a number of options on re-channeling SDRs from members with strong external positions to members in need, including LICs and vulnerable countries. These options build from recent work by staff on a trust fund for small developing states. We will discuss these alternatives with the Board in due course and likely after the formal Board meeting on the SDR allocation.

I can also note on the issue of concessional financing, currently 19 of the 34 small states have access to PRGT. That said, we always review the eligibility of the PRGT trust, and we do that every two years, and the next review will happen in January when we can discuss this further.

*Ms. Levonian:*

I will just say thanks to colleagues again for their comments, and we will relay all these comments to our authorities, in particular Directors' strong sentiments of support. I would also like to thank Ms. Munoz and the wider Western Hemisphere team for working so closely with our authorities in these very challenging times. Our authorities truly appreciate the policy advice of the Fund, and we look forward to the continuation of these most beneficial engagements.

*The Acting Chair (Mr. Zhang) adjourned the discussion.*

## **ANNEX**

- Gray Statements
- Staff Responses to Executive Directors' Technical Questions
- Constituency Codes

BUFF/ED/21/47

April 21, 2021

**Statement by Ms. Levonian and Ms. Edwards on Eastern Caribbean Currency Union  
Executive Board Meeting  
April 26, 2021**

Our Eastern Caribbean Currency Union (ECCU) authorities welcome the Staff Report for the 2021 Common Policies Discussion. The comprehensive report broadly reflects developments in the Currency Union within the context of the ongoing COVID-19 pandemic and embraces the actions and proposals that are being pursued to steer post-pandemic recovery, safeguard macroeconomic stability, support inclusive and sustainable growth, and build resilient economies. Our authorities appreciate their ongoing engagement with Fund staff and the candid dialogue that characterizes these discussions.

**Framework for COVID-19 recovery**

**The pandemic has hit the economies of the ECCU hard with GDP for the Currency Union as a whole estimated to have contracted by 16 percent in 2020, with steeper declines in the more tourism-dependent economies.** The economic losses are a direct impact of containment actions, including the closure of borders and strict lockdown measures, implemented to reduce the spread of the virus. Inflation has been contained at 0.2 percent year on year in December in line with the consumer price index in key trading partners.

The containment measures allowed for the first wave of the pandemic to be reasonably well-contained, with relatively low levels of infections and deaths. However, as borders were reopened and global infections increased, the number of cases rose and eventually led to a re-implementation of containment measures.

**As early as March 2020, several measures were implemented in ECCU member countries to mitigate the impact of the pandemic.** These included increased health care spending, cash payments to vulnerable households, income support for displaced workers in the tourism and other sectors, tax and import duty deferrals, and accelerating the implementation of the public sector investment program, where possible, to boost employment. In addition, the Eastern Caribbean Central Bank (ECCB), in collaboration with the commercial banks, agreed to exercise regulatory forbearance and introduced measures in the banking sector, such as granting of moratoria on loan repayments. The actions taken by the commercial banks were largely replicated in the non-bank sector which is dominated by credit unions. In addition, the ECCB reduced the discount rate from 6.5 to 2 percent and the

long-term credit interest rate from 6.5 to 3.5 percent to ease access to Central Bank credit for member governments and licensed financial institutions.

**The ECCB proposes to implement a Program of Action for Recovery, Resilience and Transformation (PARRT) to help support the recovery process and pursue a path towards sustainable and resilient economic growth.** The program was endorsed by the Monetary Council of the ECCB in October 2020 and is expected to be implemented over a three-year period. It consists of proposed policy actions to be undertaken at both the national and the regional levels and is built on the following four pillars:

1. Financial stability
2. Fiscal and debt sustainability
3. Resilient and inclusive growth
4. Payments modernization and digital transformation

Aspects of the program are already being implemented. For instance, in the context of pillar 4, on 31 March 2021, the ECCB launched ‘DCash’- a digital currency that became the world’s first retail central bank digital currency (CBDC) to be publicly issued within a formal currency union.

### **Financial and Monetary Sector Developments**

**Financial sector conditions are relatively sound with ample liquidity buffers and a stable deposits base.** Nevertheless, several downside risks exist and safeguarding financial stability is crucial. Uncertainty about the duration of the pandemic is a major risk. Although accommodative financial sector policies have so far been appropriate, prolonged regulatory forbearance will mask weaknesses in the sector.

**Maintaining a strong currency is a major policy objective.** Despite the economic challenges and the uncertainties in the external sector, the exchange rate parity with the US dollar has remained fixed. Foreign reserves remain high and no change in the exchange rate is anticipated.

**Our authorities agree with staff that comprehensive crisis management plans for implementation at the regional and national levels should be prepared.** To that end, the main objectives of the financial stability pillar of the PARRT are structured to maintain stability in the entire financial system while stimulating economic growth. The authorities will ensure that the non-bank financial system operates within the applicable guidelines provided by the single regulatory units of individual governments. Likewise, licensed financial institutions will be required to operate within prudential benchmarks and relevant guidelines issued by the ECCB. In addition, actions will be taken to maintain the stability of the financial system through the support of recapitalization, effective resolution strategies, optimal liquidity management, and improved information exchange.

**Sustained efforts are needed to address remaining financial sector weaknesses.** The ECCB will work with Governments to build the databases that are needed to enrich the

quality of banking sector assessments. These assessments will help with the identification of institutions which pose high systemic risk, especially those with very elevated NPL levels. The tourism shock is projected to almost triple banks' NPLs. Regional efforts to reduce NPLs will continue. One option is through purchases by the Eastern Caribbean Asset Management Corporation (ECAMC) which was established by the Monetary Council for that purpose. The alternative is through private sector asset management companies that are providing that service.

### **Corresponding Banking Relationships (CBRs)**

**The loss of correspondent banking relationships (CBRs) remains a concern for the region and poses a risk to financial stability.** Although there have been no new terminations of CBRs, recent legislative changes in the U.S. could increase the cost of compliance, a key factor in the decision of correspondent banks on whether to provide services to Caribbean respondent banks. This action could re-elevate the risk of losing CBRs and magnify the concerns of potential impact on the banking sector and the economy more generally. With two foreign banks exiting the market in the last 18 months, domestic banks now serve close to two-thirds of the market. This highlights the magnitude of the challenge if ECCU domestic banks are not able to maintain adequate CBRs.

Our authorities will continue to pursue initiatives to prevent further loss of CBRs by adopting global regulatory standards, implementing reforms targeted at improving the AML/CFT framework, as well as to improve governance in undertaking all financial transactions. However, standards for AML/CFT continue to change and are adopted and implemented at significant cost. Enhancing capacity to address these issues remains a priority.

Our authorities look to the Fund and other multilateral institutions for the technical support to continue to enhance the AML/CFT framework and leveraging digital tools for transaction monitoring.

### **Fiscal Policy and Debt Management**

**The pandemic has worsened the fiscal situation of ECCU member states.** Largely as a result of steep declines in GDP, the ECCB has recommended that member countries delay the achievement of the fiscal anchor of 60 percent debt to GDP ratio from 2030 to 2035. Public debt levels are high and increasing in several countries as new debts were incurred to finance the pandemic response. Accordingly, our authorities are committed to making well-focused and concerted efforts to improve fiscal performance and achieve debt reduction goals across the ECCU.

**Our authorities agree that stronger fiscal consolidation efforts are needed to attain the debt targets by the revised date of 2035.** The pace at which the target will be achieved will vary from country to country. ECCU member states are committed to prioritizing fiscal discipline, including through the adoption of fiscal rules. Well-articulated fiscal frameworks and comprehensive recovery plans are necessary along with the ECCB PARRT.

**Measures to enhance revenue administration and collection are necessary.** ECCU member states will need the assistance of development partners in raising the financing for closing the fiscal gap. This will be complemented by increasing domestic revenues. In that regard, technical support to achieve this objective is vital. For those states that rely heavily on resources from the Citizenship by Investment Programs, strengthening the governance in the operation of these programs will be undertaken to ensure greater sustainability.

**Our authorities welcome the Fund's preparation of a comprehensive climate change strategy, including the plans to include climate change issues in surveillance and the preparation of a climate change dashboard.** The ECCU countries are ranked among the most natural disaster-prone countries worldwide and are barely able to build buffers because of the frequency of climatic events and other natural hazards. The ongoing eruption of the La Soufriere volcano in St. Vincent and the Grenadines is evidence of the risks to which ECCU member states are exposed. **Building resilience is not optional and access to funding for resilience building is critical.** We continue to advocate for special consideration to be given to Small Development States (SDSs), including those of the ECCU, in light of their high level of vulnerability, and urge the Fund to work with other multilateral institutions in addressing this urgent and important matter.

### **Achieving Sustained and Inclusive Growth**

**The road to returning to pre-pandemic GDP levels could be long and protracted if the pandemic is not contained.** As such, our authorities will pursue a path to achieving sustained and inclusive growth that is multifaceted. In the first instance, the focus will be on ensuring that the population is fully vaccinated in tandem with tourism source markets, which is needed to fully reopen the tourism industry as soon as possible. In this context, the Fund should continue its advocacy for vaccine equity among all countries. Additionally, our authorities continue to make investments in other sectors such as agriculture, physical infrastructure, renewable energy, and digitalization to lay the foundations for sustained and inclusive growth.

Our authorities remain committed to removing obstacles to doing business that impact on growth outcomes. Investments in education and continued support to the health sector will improve the quality of the labor force. New legislation to provide for the establishment of a credit bureau and simplifying foreclosure processes are all intended to encourage private sector investment.

The ECCU will pursue these developments in a coordinated manner and within the context of the OECS Economic Union framework.

### **Capacity Development**

**Central to the successful implementation of the ECCU recovery plans is the availability of technical support.** Our authorities are grateful to the Fund's area and functional departments as well as the Caribbean Regional Technical Assistance Centre (CARTAC) for

their tremendous efforts in facilitating capacity building in the ECCU and look forward to the continued strong support of the Fund in this regard.

### **Conclusion**

Our authorities remain cognizant that much more needs to be done to achieve the long-term vision for the ECCU. Despite numerous challenges, our authorities are not daunted by the tasks that lie ahead and are keen to take the necessary steps to rebuild in the aftermath of the pandemic. Strengthening integration and greater collaboration among member states will make the development efforts more effective.

The support of the international community, including the Fund, as well as technical and financial assistance are critical to the success of the ECCU's plans to preserve macroeconomic stability, develop sound financial systems, and ensure sustainable, inclusive growth.

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GRAY/21/1034

April 21, 2021

**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.

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GRAY/21/1035

April 21, 2021

**Statement by Mr. Bevilaqua, Mr. Fuentes, and Ms. Mohammed on Eastern Caribbean  
Currency Union  
(Preliminary)  
Executive Board Meeting  
April 26, 2021**

We thank staff for their report, and Ms. Levonian and Ms. Edwards for their informative statement. The COVID-19 pandemic has severely impacted the Eastern Caribbean Currency Union (ECCU) countries. The collapse of tourism led to the deterioration of fiscal positions across the board with large revenue losses and high spending pressures, as well as rising public debt. Against this background, after the deep contraction in 2020 and the subdued economic activity this year, a strong rebound is anticipated in 2022 on the back of a gradual recovery in tourism. While the swift roll out of an effective vaccine represents an upside risk to boost confidence and fuel economic activity, the outlook remains subject to exceptionally high risks mainly due to the uncertainty surrounding the evolution of the virus. In addition, correspondent banking relationships (CBR), cyber-attacks and vulnerability to natural disasters also remain major concerns.

**Protecting lives and livelihoods must remain a priority in the near-term, yet a strong commitment to fiscal consolidation would be needed to support debt sustainability in the medium-term.** We commend the authorities for their efforts in containing the health and socio-economic impacts of the pandemic. In this process, maintaining support to the vulnerable is of paramount importance. Therefore, we encourage authorities to continue to rationalize spending and seek concessional borrowing to preserve medium-term fiscal and debt sustainability. We also welcome the postponement of the regional debt target of 60 percent of GDP to 2035 to create policy space to support the recovery. We see merit in the development of regional standards to guide the national fiscal policy framework including issues on natural disaster clauses and state-contingent debt. However, we agree that the focus should now be on strengthening national oversight mechanisms, given member states' substantial differences in economic and fiscal positions and policies to the pandemic.

**Maintaining financial sector stability remains paramount.** We concur that the loan moratoria should be phased out and any subsequent restructurings should have realistically achievable repayment terms. Considering the large expected impact of the tourism shock on NPLs, enhanced oversight of the banking system and increased capitalization should be encouraged until the pandemic abates. It is also imperative that authorities continue to explore strategies to resolve the legacy NPL problem going forward. Moreover, we see merit in the implementation of a crisis management plan at a regional and national levels as it would help coordinate policy responses and effectively contain risks. Continued implementation of financial sector reforms including centralized AML/CFT supervision for the banking system, and harmonized legislation for co-operative societies would also be key to preserving financial stability and mitigating CBR risk.

**Safeguarding the currency board with a strong backing ratio is important going forward.** We welcome the authorities' commitment to continue to be guided by its legal requirements and operational framework to maintain the robust backing ratio. We positively note that it has been maintained at 95-100 percent over the past two decades and has served to limit the risk of a currency crisis. Nevertheless, given the uncertainty of the pandemic, close monitoring of foreign exchange movements, and the development of scenario-based policy responses merit consideration.

**Finally, progress in the structural reform agenda is essential to boost growth and improve competitiveness.** We welcome the ECCB Program of Action for Recovery, Resilience and Transformation to enhance regional integration, financial stability, and fiscal and debt sustainability. We encourage the authorities to remain steadfast in their efforts to implement structural reforms to support a more competitive and resilient economic structure. At the same time, greater support from the international community is vital to help the ECCU members (and the rest of Caribbean) to build resilience to natural disasters while preserving fiscal and debt sustainability. Finally, we support the authorities call for greater access to concessional financing for small island countries on the basis of their vulnerability to external shocks and more rapid and equal global distribution of COVID-19 vaccines.

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GRAY/21/1043

April 22, 2021

**Statement by Mr. Mohieldin, Mr. Alhosani, and Ms. Abdelati on Eastern Caribbean  
Currency Union  
(Preliminary)  
Executive Board Meeting  
April 26, 2021**

We thank staff for the staff report which highlights the sharp contraction of GDP in the economies of the Eastern Caribbean Currency Union (ECCU) by 16 percent overall, with some tourism-dependent countries more severely affected economies. Having undertaken emergency spending measures while revenues were curtailed, the projected increase in overall debt level to reach 90 percent of GDP in 2021 is of concern and will need to be addressed. *What are the capacity building activities provided by staff in this area to compliment the helpful Fund financial support?*

The emergency measures implemented by the East Caribbean Central Bank in member countries were necessary to mitigate the impact of the pandemic and proved effective. This includes the effective lowering of the discount rate and long-term credit rates by 4.5 percent and 3 percent respectively. We concur with the need to pursue policies to help support the recovery process. We therefore welcome the proposed policy actions to be undertaken at both the national and regional levels as part of the proposed Program of Action for Recovery, Resilience, and Transformation PARRT, as described by Ms. Levonian and Ms. Edwards' informative Buff statement. As part of this program, *we take note of the launch of the DCash digital currency and would welcome staff elaboration of their role in assisting to prepare for this launch and any remaining risk factors that need to be addressed.*

As in other jurisdictions which had a relatively sound financial sector with ample liquidity and a stable deposit base, uncertainty about the duration of the pandemic is a major risk. It will be important to carefully assess the right timing for terminating the regulatory forbearance that could mask weaknesses in the sector if prolonged. We take note of the authorities' plan to operationalize a crisis management plan to help resolve pockets of high risks in the financial sector. This is important as NPL ratios are expected to continue to rise and may triple in the coming years. *We would like to know to what extent there are plans to raise capital requirements to continue to comply with regulatory requirements.*

We share the concerns of the region's economies on the loss of correspondent banking relationships and *would like to hear how the Fund can help, including by facilitating a*

*dialogue among stakeholders to address these concerns.* The Buff highlights the exit of two foreign banks in the last 18 months and legislative changes in U.S. that could increase the cost of compliance, and potentially discourage banks from providing services to Caribbean respondent banks. *We would also like to hear from staff how leveraging digital tools can be helpful in facilitating payments and addressing the loss of correspondent banking relationships.*

Achieving fiscal consolidation and efforts to attain the debt target of 60 percent of GDP, now delayed to 2035, must go hand in hand with efforts to restore growth in a sustainable way and reversing the income losses incurred throughout the pandemic. We agree that the pressing need is to keep security challenges in check, enhance social protection, and improve basic infrastructure to lay foundation for stronger growth—all of which require a stable source of financing. Measures to enhance domestic revenue mobilization are important but will not be enough without the assistance of development partners. Measures to achieving sustainable growth and to build resilience go hand in hand with the objective of reducing debt-to-GDP.

The ECCU countries are among the countries most prone to natural disasters and therefore stand to benefit from the climate change strategy under preparation and the climate change dashboard. We take note of statement in the Buff that building resilience is not optional and that access to funding is critical. We fully support the position in the Buff statement, which advocates for special consideration to be given to Small Developing States (SDS), including those of the ECCU, and would like to see the Fund work with other institutions in addressing this matter.

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GRAY/21/1044

April 22, 2021

**Statement by Mr. Odonye and Mr. Jappah 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 pandemic has exacted a heavy toll on the ECCU, severely disrupting tourism receipts and other inflows to the region. The economy contracted by 16 percent in 2020 and is projected to continue amid significant downside risks, including the uncertain path of the virus. We note that the reopening of the economy since last summer failed to boost the return of tourists and has resulted to a surge in COVID-19 cases. Against this background, we broadly agree with the thrust of the staff assessment and support the near-term efforts to address the crisis, reduce economic scaring and protect the vulnerable.

We appreciate the ECCU's efforts to protect lives and livelihoods, ensure medium-term fiscal sustainability, and safeguard financial stability and the quasi-currency board. Here we welcome the approval of the regional program by the ECCB Monetary Council that outlines the Action for Recovery, Resilience and Transformation of the ECCU Economies during 2021–2026. We take positive note of the assurance in the Buff statement that aspects of the program are underway. More importantly, we support the authorities' focus on ensuring that vaccination fully reaches the population alongside the reopening of tourism markets, which is crucial to the economy.

We support the ECCU's decision to extend the regional debt target from 2030 to 2035 to create the fiscal space and maintain confidence in the regional anchor. The authorities must strengthen both regional and national fiscal frameworks to safeguard the credibility of the revised debt anchor. At the regional level, this includes instituting common standards and arrangements to guide national fiscal policy frameworks, establishing a regional fiscal oversight body, and developing incentive mechanisms to ensure compliance and lower government borrowing costs. The national authorities should accelerate efforts toward adopting full-fledged rules-based fiscal frameworks to guide the pace and composition of the medium-term consolidation toward the debt target.

Helping financial institutions to overcome the near-term pandemic impact and preparing comprehensive crisis management plans is crucial for a sustainable monetary union. In this regard, we see merit in well-designed fiscal frameworks, including fiscal rules to ensure fiscal and debt sustainability. Further, the authorities need to improve the existing regional and national frameworks for implementing transformative initiatives, particularly to enhance natural disaster management and investment in resilient infrastructure. *We would appreciate further elaboration on the authorities' more optimistic growth prospects for 2021 than staff's?*

We positively note that financial sector conditions are relatively sound with ample liquidity buffers and stable bank deposits. Nevertheless, we are uneasy that rising non-performing loans (NPLs) could upset the sector following the expiration of the moratorium on loan repayment. This warrants vigilance and supervisors should carefully balance near-term supervisory flexibility with measures to help financial institutions to weather possible upsets. We encourage the authorities to monitor and reinforce risk management measures, including for non-bank financial institutions. We commend recent efforts to implement higher standards on the treatment of impaired assets, which would ensure appropriate loan loss provisioning and reinforce national and regional crisis management frameworks. *Could staff elaborate on the status of the common infrastructure and supervisory framework for non-banks? Relatedly, we would appreciate more comments on the review of the ECCB toolkit for liquidity assistance to banks and the prospects for domestic banks to rise to the decoupling of CBRs under the recent legislative changes in the US?*

Finally, we agree that building resilience is nonnegotiable and access to funding would reinforce the drive. We support initiatives that have catalytic effects on Small Development States (SDSs), including those of the ECCU, in light of their high level of vulnerability. In this regard, Fund's collaborative work with other multilateral institutions is commendable and would continue to receive our support. We also welcome the work of CARTAC and IFIs in helping to strengthen capacity in data gathering and dissemination for local institutions.

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GRAY/21/1045

April 22, 2021

**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 outcome. While we welcome the authorities' commitment to reforms, the near-term efforts should prioritize protecting lives and livelihood while limiting permanent scarring. 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.

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GRAY/21/1046

April 22, 2021

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

We thank staff for the well-focused report and Ms. Levonian and Ms. Edwards for their concise Buff statement. While the Eastern Caribbean Currency Union (ECCU) members have successfully contained the pandemic and have secured the necessary emergency financing, the reopening of economies is surrounded by increasing uncertainty and risks. The tourism collapse and associated large economic and job losses combined with the slow progress of inoculation and scarring will probably have long-lasting effects. Additionally, fiscal positions have deteriorated, and elevated public debt and non-performing loan (NPL) levels, as well as sovereign-financial spillovers, need to be properly addressed at the recovery phase to ensure the long-term economic sustainability. During the post-pandemic recovery, members should strengthen resilience against natural disasters that are expected to intensify because of climate change. Thus, we broadly share the thrust of the staff's appraisal and recommendations and would like to provide the following for emphasis.

**Close cooperation with the international community, including the IMF, is critical** to speed-up vaccination, catalyze donor financing to support priority spending, and anchor the necessary medium-term adjustments to restore growth and debt sustainability. While the authorities' near-term priority rightly focuses on strengthening healthcare systems and protecting lives, without additional concessional financing the ECCU members may need substantial social and policy adjustments to safeguard the integrity of the currency board arrangement and regional financial stability. We concur that the authorities should refrain from using the Eastern Caribbean central Bank (ECCB) credit line. If properly implemented, the staff suggested growth-friendly fiscal consolidation strategy would ensure the necessary public investment (including for building resilience to natural disasters) to strengthen both the growth potential and the credibility of the fiscal framework.

**Further strengthening of fiscal responsibility frameworks and harmonization within the ECCU are critical to preserve credibility of the revised common fiscal anchor.** We support introducing the regional common standards and arrangements to guide national fiscal responsibility frameworks with the IMF's technical assistance. Their adoption should be accompanied by an independent regional fiscal oversight institution to ensure transparency, accountability, support peer reviews of members' fiscal responsibility or resilience frameworks, assess options for further reforms and operational rules, institutionalize good fiscal policies and practices, and assist members develop their

own legislation and/or procedures for fiscal transparency. Given that the well-sequenced improvements to national fiscal frameworks and rules are key to the success of the reframed regional anchor, we encourage the authorities and staff to closely cooperate on designing incentive and compliance mechanisms to preserve market access and lower the government borrowing cost going forward.

**Prompt actions are needed to counter the growing financial stability risks and address possible sovereign-financial spillovers.** While we agree that supervisory forbearance is needed in the ongoing recession, it should be accompanied by measures to expeditiously strengthen the supervisory, regulatory, and crisis preparedness frameworks. The authorities should also progress with the broader financial sector reform agenda, including on the credit reporting and insolvency frameworks, centralized AML/CFT supervision for the banking system, and harmonized legislation for co-operative societies to help address the growing near-term financial integrity risks. In this regard, further strengthening and harmonization of the regional Citizenship-by-Investment programs is warranted too. Slow progress of the NPL resolution in the ECCU remains a concern, given the anticipated sharp increase in NPLs once the moratoria expires. It prompts for timely reconsideration of the existing strategies. *Staff's further elaborations on the recent progress in this area are welcome.*

Finally, we urge the ECCB and ECCU members to promptly improve the compilation and dissemination of the macroeconomic and external sector data needed for a sound policymaking at the ECCU level.

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GRAY/21/1047

April 22, 2021

**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.

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GRAY/21/1048

April 22, 2021

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

*We thank staff for an insightful report and Ms. Levonian and Ms. Edwards for their helpful Buff statement. Though with different intensity across countries, the Eastern Caribbean Currency Union (ECCU) has been hit particularly hard by the pandemic and its fallout on tourism with a sharp fall in GDP in 2020, which is estimated at -16 percent y-o-y. The outlook is projected to remain weak also this year in relation to the uncertainty about the evolution of the pandemic. We appreciate the multi-pronged anti-crisis response comprising monetary, fiscal, financial measures that the ECCU authorities put in place to contrast the pandemic and share the staff's policy recommendations. We recognize the context of higher fiscal and external vulnerabilities for the ECCU economy, policy trade-offs, and think that the Fund's RCF emergency programs with four countries in the currency union have helped them to navigate the crisis. We wish to offer the following comments.*

- The pandemic crisis has exacerbated pre-existing fiscal and external vulnerabilities and it is critical that ECCU policy makers strike the right balance between continuing to support lives and livelihoods and rebuilding policy buffers as soon as the recovery becomes entrenched.
- As elsewhere, the deployment of effective vaccination campaigns in the ECCU economy is necessary to eradicate the COVID-19 virus and fully restart tourism activities, which are so important for strengthening the recovery in the economy.
- We agree with the postponement by 5 years, from 2030 to 2035, in the timeline to achieve the regional debt target of 60 per cent of GDP because of the impact of the pandemic crisis on top of the pre-existing effects of the GFC. We encourage the ECCU authorities to strengthen their fiscal frameworks along the lines suggested by staff to enhance the credibility of the revised target.

- The anti-crisis measures to ease the impact of the pandemic crisis in the financial sector have been appropriate. Nonetheless, in light of the expiry of the temporary loan moratoria in September this year, the projected rise in NPLs requires authorities to put in place all the instruments that can bolster the crisis management plans to enable a faster resolution of troubled assets, including through the Eastern Caribbean Asset Management Company.
- We welcome that the currency backing ratio of the ECCB has remained at robust levels and that the quasi-currency board has continued working well. We appreciate the ECCB Program of Action for Recovery, Resilience and Transformation of the ECCU Economies adopted in October 2020 and concur with staff and authorities on the need to bolster structural reforms to improve competitiveness and boost growth in the ECCU. We encourage staff to provide technical assistance to ECCU countries where needed, including through the Caribbean Regional Technical Assistance Centre (CARTAC).
- Finally, we would like to learn more about the launch by the ECCB of the digital currency DCash on March 31, 2021, as indicated in the Buff statement. *Staff's comments would be welcome.*

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GRAY/21/1053

April 22, 2021

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

We thank staff for the informative report and Ms. Levonian and Edwards for their comprehensive Buff statement. The COVID-19 pandemic hit hard the Eastern Caribbean Currency Union's (ECCU's) countries, which are tourism-dependent and entered the pandemic with long-standing vulnerabilities and elevated debt levels. The economic outlook is highly uncertain with many risks, including climate-related ones. However, as outlined in the Buff statement, the ECCU authorities' actions helped cushion the initial shock, and the Fund's timely emergency financing contributed to bridging the financing gap in 2020. Nevertheless, the ECCU members' medium-term balance of payments needs remain elevated and critically depend on the rebound of tourism and the pace of vaccination. As the uncertainty around these critical factors is unprecedented, we share the sense of urgency stressed by staff to advance contingency planning and strengthen the policy frameworks at the regional and national levels to create the much-needed fiscal space and mobilize donor financing.

**Concerted measures at the ECCU level should underpin the national policies aimed at strengthening the fiscal frameworks and ensuring debt sustainability.** Staff's fiscal and economic forecasts critically hinge on the assumptions about the tourism rebound. As the uncertainty on this front remains elevated, the baseline scenario with a full tourism recovery in 2024 seems to be on the side of caution. This is a remarkable departure from staff's earlier projections, which assumed a V-shaped recovery in tourism. While we agree that avoiding over-optimism is a sound approach, staff's further comments on *why the balance of risks to the outlook is judged to be on the downside to the already conservative forecast would be appreciated. Also, we wonder about the pandemic's impact on the revenues from the Citizenship by Investment (CBI) programs across the ECCU and staff's views on the role of the CBI programs in the post-crisis period.* Mobilizing all sources of revenues as well as external grants and concessional financing while advancing the public financial management reforms, debt management, and medium-term fiscal frameworks would be critical. We

support staff's recommendations, outlined in the report, to boost credibility of the newly established fiscal anchor and encourage the ECCU members to coordinate their efforts at the union level to ensure that the stated objectives are met. We are encouraged to learn from the Buff statement that well-articulated fiscal frameworks and comprehensive recovery plans are considered as necessary by the ECCU's authorities.

**The currency board backing ratio remains healthy, allowing monetary policy to play its role in supporting the post-crisis recovery.** We note that maintaining a credible currency board remains one of the major policy objectives in the ECCU. The Eastern Caribbean Central Bank's (ECCB's) backing ratio stands currently at 96 percent, well above the operational benchmark of 80 percent and legislative requirement of 60 percent. *Could staff comment on how the expected SDR allocation will impact the backing ratio?* As the fiscal space is severely constrained in the ECCU countries, more active monetary policy could help limit scarring and support the recovery. In this regard, we welcome the Program of Action for Recovery, Resilience and Transformation, supported by the ECCB, aiming at facilitating sustainable and resilient economic growth in the post-crisis period. We note the EBA-lite results, suggesting that the external position in 2020, adjusted for the COVID impact, is estimated to be moderately weaker than what is consistent with fundamentals, implying an exchange rate overvaluation. Hence, continued vigilance is needed to ensure that the external competitiveness is preserved over the medium term.

**Growing risks to financial stability call for pro-active mitigation measures and contingency planning.** We note with concern that, according to staff's assessment, around 30 percent of the outstanding loans are at risk of non-performing in the coming years. While the actual outcome will depend on the macroeconomic environment and resumption of tourism-related activities, we agree that pro-active measures should be deployed to ensure that risks to financial stability are contained and adequate liquidity in the banking sector is preserved. Incorporating climate-related risks in the financial stability framework should also be a priority. We welcome that the authorities agree with staff on these recommendations and comprehensive crisis management plans are under preparation at the regional and national levels, as outlined in the Buff statement.

While the loan classification should reflect the underlying economic fundamentals of borrowers, it is critical to ensure that viable businesses, affected by the sudden stop in tourism, will get timely loan restructuring as well as lifeline support in the period of temporarily subdued demand.

**Growth-enhancing structural reforms remain paramount to support a durable and green recovery.** While the focus of the report is rightly on the immediate priorities to maintain macroeconomic stability and mitigate the fallout from the pandemic, structural reforms remain critical to boost growth potential and attractiveness of the investment climate. We echo staff's recommendations in the areas of governance, AML/CFT, tax transparency standards, and statistics to strengthen economic and institutional fundamentals of the ECCU.

We welcome the Fund's continued support to the ECCU members through technical assistance and capacity development, lending, and surveillance to help these countries overcome the pandemic-related crisis and facilitate a faster and sustainable economic recovery.

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GRAY/21/1054

April 22, 2021

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

**We thank staff for its informative report and Ms. Levonian and Ms. Edwards for the insightful BUFF. We agree with the thrust of the appraisal.** Due to its heavy reliance on the tourism sector, the ECCU has been hit particularly hard by the Covid-19 pandemic. Real GDP is estimated to have declined by 16 % in 2020 (compared to -7 % in the LAC region). Unlike for most other countries, staff does not expect a quick recovery this year (-0.2 % in 2021, compared to +6 % in the LAC region). Strict containment measures – including travel restrictions – imposed in spring 2020 were lifted subsequently and tourist arrivals started to recover slowly during the winter season. However, we take note that staff expects tourism exports to remain below 30 % of the pre-pandemic level this year, which is the main driver of the deteriorating current account deficit from -6.5 % of GDP in 2019 to the projected -21.6 % in 2021.

**The pandemic interrupted the authorities' efforts to align public debt with levels consistent with the debt-to-GDP ceiling of 60 % of GDP, and we note that the ECCB Monetary Council has moved the target date to return to the ceiling from 2030 to 2035.** While the quasi-currency board limits the availability of monetary policy tools for stabilization, space for countercyclical fiscal policy measures is limited as well. Even under the assumption that tourism exports will recover to pre-pandemic levels by 2025, the outlook remains very challenging, with significant vulnerabilities from high public debt, adverse external sector dynamics absent strong adjustment, as well as risks to financial stability and from frequent natural disasters.

We would like to offer our comments on these issues in the following and have some additional questions.

**We agree with staff that the revision of the medium-term fiscal anchor should be accompanied by additional measures to preserve its credibility.** Those measures should

include a strengthening of fiscal frameworks through robust ECCU-wide common standards for national fiscal policies and an independent fiscal oversight body. Due to the high level of vulnerability of ECCU countries to natural disasters and climate related risks, national disaster resilience strategies including fiscal buffers for those types of events could make an important contribution towards more sustainable public finances over the medium term.

Depending on updated projections for individual countries, public debt could be unsustainable in some ECCU countries and a number of ECCU countries will need to implement substantial policy adjustments to correct unsustainable flow imbalances. Given large imbalances and risks, any Fund support will require strong safeguards including on debt sustainability and adequate conditionality. Debt operations – if and where needed – should generally be designed and implemented in a timely manner to achieve a sustainable debt situation (prevent "too late") and to avoid the need for exceptionally large new credit from the Fund (prevent "too little").

**Regarding the appropriate pace of fiscal consolidation, we note that staff judges that achieving the 2030 debt target may no longer be feasible for “several countries in the region”.** While the appropriate and feasible pace of fiscal consolidation will depend on country-specific circumstances, the referenced cumulative fiscal adjustment effort of 6 percent of GDP for the ECCU up to 2030 would certainly not be unprecedented or exceedingly ambitious in international comparison. In some cases, it might be commensurate with the magnitude of fiscal imbalances and the need to build resilience to shocks in ECCU countries. Moreover, the estimated impact on GDP growth appears to be quite limited consistent with fiscal multipliers in ECCU economies that are likely to be rather small. Last but not least, it is unclear whether debt projections for the ECCU as a whole incorporate any debt restructurings or reprofiling in individual countries. *Additional staff comments would be welcome.*

**We agree with staff that recurring natural disasters, potentially devastating impacts from climate change and the strong dependence on tourism-related activity provide an interesting rationale for issuing state-contingent debt instruments.** In the past, state-contingent debt instruments were used in phases of sovereign default or debt restructuring (as in the cases of Grenada and Barbados and most other prominent cases).<sup>1</sup> Future debt restructurings in ECCU countries are likely to be complex and potentially protracted inter alia due to the composition of public debt. Thus, a careful assessment will be needed of whether state-contingent instruments can be helpful to solve these issues. In addition, the literature references complex design and data quality issues as potential problems for adequate market pricing – especially the availability and quality of official statistics appears to be a challenge in the context of the ECCU. *Additional staff comments would be welcome.*

<sup>1</sup> International Monetary Fund (2017), "[State-Contingent Debt Instruments for Sovereigns](#)", IMF Policy Paper, 22 May, Washington.

**We agree with staff that in the short run, ECCU countries do not have any other choice than to control the pandemic, acquire a maximum of vaccine doses and try to safely re-open the economy for tourist inflows.** While this may reduce the current account deficit, staff's projections for tourism exports imply that the deficit would remain significantly larger than before the crisis. Thus, ECCU economies will have to strengthen their external competitiveness and resilience through structural reforms, more targeted investments and fiscal consolidation once the pandemic subsides. In addition, we encourage the authorities to design contingency plans for subdued tourist arrivals for a longer period of time or for a scenario with international travel activity never recovering to pre-pandemic levels.

**We welcome the authorities' request for technical assistance for the compilation of external sector statistics.** The absence of timely information on the ECCU-wide current account makes a credible external sector assessment very difficult. Given the special circumstances and the large estimated current account deficit of the ECCU, timely compilation and high quality of external statistics are essential for policy advice and the formation of market expectations.

**We agree with staff that the authorities need to strengthen CFT/AML supervision, especially as they envisage higher revenues from citizenship-by-investment (CBI) programs in the future.** This is particularly important in the context of the prominent perception of abuse surrounding CBI programs. In this context, the authorities should enhance regional coordination and centralization of supervision to ensure a robust vetting of applicants. The publication of all names granted citizenship under CBI programs would be a powerful measure to enhance the reputation and longevity of this source of revenue.

**We are worried about the high share of NPL to total assets on the books of majority state-owned banks.** The problem will likely become worse in the future – staff estimates almost a tripling of NPLs in the next three years. While majority state-owned banks have the highest share of NPLs among all groups, they also have the lowest level of loan-loss provisions. We agree with staff that these developments reflect a large contingent fiscal liability, which is likely to become a major problem for public debt sustainability soon. The authorities should monitor these risks closely and ensure both adequate loan loss provisions as well as effective frameworks for NPL resolution.

*In light of the eruption of the Volcano “La Sofrière” and the evacuation efforts on St. Vincent and the Grenadines, does staff have estimates for the potential economic loss? (How do the destruction and the response so far compare to the estimates on the effects of the 1979 eruption of 20 % of total GDP?).*

We were a bit surprised to find little follow-up on the ECCB's work on a **digital currency** in this year's report and recall that the Fund has encouraged the authorities to proceed cautiously in the past. *Additional staff comments would be welcome.*

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GRAY/21/1055

April 22, 2021

**Joint Statement by Mr. Chikada, Ms. Grant, Mr. Mochtar, Mr. Dacharux, Mr. Iona, and  
Mr. Kuretani 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 helpful Buff statement.

The pandemic brought a big challenge for the ECCU economies. The tourism-dependent economies of the ECCU were heavily hit by the pandemic, following a 5-year period of strong regional economic growth. Tourist arrivals came to a standstill as strict measures, both within the region and in major source markets, were taken to curb the spread of the disease. The spillover effects on the retail distribution and services sectors, together with domestic lockdowns, led to the deep and protracted recession the region is now facing. The sharp increase in COVID-19 cases following a reopening of borders has added to the long and bumpy road to recovery, with significant uncertainty around the pandemic's trend and tourism demand. That said, we broadly concur with staff's analysis and policy recommendations to tackle the challenges and offer the following comments for emphasis.

**We agree with staff that focusing on saving lives and livelihoods is the right near-term priority for fiscal policy in the ECCU region.** Increased support for the health sector is urgently needed to enhance testing and treatment capacity, and to expedite the rollout of vaccination programs in collaboration with development partners. If done well, these efforts will also help restore confidence in the tourism sector over the medium term which can help propel economic recovery. Equally important is the need to maintain support for vulnerable households. As such, it is appropriate to postpone the regional debt target by five years to provide space to support these near-term priorities and economic recovery efforts. We welcome the authorities for seeking emergency support from the Fund early on in the crisis and encourage staff to engage with authorities on the possibility of seeking appropriate and longer term arrangements from the IMF and other IFIs.

**Preserving the credibility of the revised fiscal anchor, including to mitigate the pandemic's negative impact on public finances with elevated debt to GDP ratios, is crucial to boost confidence and ensure long-run growth benefits.** Credibility can be achieved by strengthening the fiscal policy frameworks, which as staff suggest, could include common standards and arrangements, fiscal oversight, and incentive mechanisms to promote compliance. All these initiatives aim to ensure timely implementation of fiscal adjustments and strengthen fiscal transparency and accountability. Strong fiscal transparency and accountability will help provide confidence to donors. We caution, however, against a premature withdrawal of COVID-19 related fiscal support, and the return to a growth-friendly fiscal consolidation must be carefully calibrated once the pandemic is fully under control.

**Implementing the financial sector reform agenda while carefully assessing the necessity for further loan restructuring is also important to further strengthen financial stability.**

We agree with staff on the need to formalize crisis management plans at all levels to contain broader financial stability and any contingent fiscal liability risks. At the regional level, it is important to ensure the adequacy of ECCB's tools for liquidity assistance and its bank resolution framework, including for non-banks. We also support staff's recommendation that other long-term reforms must be pursued, including a centralized AML/CFT supervision framework and transitioning toward Basel II/III regulatory regimes. We agree with Ms. Levonian and Ms. Edwards in their Buff statement that corresponding banking relationships is an ongoing risk to financial stability and urge staff to remain engaged with the region on this matter. We agree with the ECCB that some financial sector reforms should not wait until the end of the pandemic, although sequencing should be closely tailored to capacity under the crisis management scenario. We note that already elevated levels of NPLs are expected to rise sharply after crisis-response measures are lifted partly due to the ongoing tourism shock, bringing to the fore the need to adequately fund the ECAMC to support recovery and resolution efforts. *In light of the insufficient funding model for ECAMC to date, could staff comment on what are the alternative troubled asset resolution strategies available to the authorities?*

**Intensified CD support from IFIs will be beneficial for ECCU authorities as they navigate their way through this crisis.** Implementing the fiscal and financial sector policy recommendations will not be easy, even in the best of times. That said, persistent technical assistance will be needed, especially given the significant uncertainty that lies ahead. In this respect, we urge staff to closely engage with the authorities and in collaboration with other CD providers to ensure tailored and coordinated support for the ECCU authorities by utilizing CARTAC.

**Mitigating the extreme vulnerability of ECCU members to natural disasters and climate change are also important amidst the complexity of recovery challenges.** We are pleased, however, to note the authorities' determination and commitment to building resilience to natural disasters and support their call for greater and dedicated international financial support, including from the IMF, as they attempt to embed these challenges into

their medium-term investment strategies. We also note the call by authorities for greater access to concessional financing for small island countries on the basis of their vulnerability to external shocks.

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GRAY/21/1056

April 22, 2021

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

We thank staff for the informative report and Ms. Levonian and Ms. Edwards for the helpful Buff statement. As tourism-dependent economies, the Eastern Caribbean Currency Union has been hit hard by the pandemic. The authorities are facing significant challenges of protecting livelihoods and ensuring medium-term fiscal sustainability. In the medium term, elevated public debt and rising financial stability risks call for steadfast efforts of resuming fiscal consolidation and strengthening financial sectors to achieve sustainable and inclusive growth. As we broadly support staff's assessment, we will limit ourselves to the following points.

**On the fiscal front,** we agree with staff that the near-term priority is to protect lives and livelihoods. In this regard, securing access to vaccines is a top priority. While the authorities have secured some vaccine supply, we note that the expected number of doses is too small to reach the authorities' goals and to achieve herd immunity. We encourage the authorities to maximize vaccine access in collaboration with international and regional partners. We regret that the eruption of La Soufriere volcano is adding more difficulty to St. Vincent and its neighbors. *Could staff elaborate on how it would impact the economic growth and fiscal conditions in the region?* While we understand the authorities' decision to extend the regional debt target for five years as the original target is no longer feasible, we agree with staff that this should be supported by credible fiscal frameworks to safeguard the revised debt anchor. We see the need to establish a regional fiscal oversight body and to develop incentive mechanisms to ensure compliance.

**On the financial front,** continued efforts are needed to safeguard financial stability. We commend staff for their in-depth studies on issues related to the quasi-currency board arrangement of the ECCU as shown in box 6 and annex V in the staff report and agree with staff that the ECCB should continue the current practice of keeping a robust backing ratio. Thanks to important steps to financial system in the pre-pandemic period, the financial system in the region is relatively sound so far. However, given rising NPL pressures in the

context of the authorities' financing constraints to support NPL resolution, we agree with staff that extensions of loan moratoria should be limited within the announced time frame. It is also essential to address supervisory gaps in the non-banking sector and to strengthen stress-testing. We take note of staff's suggestion for the authorities to explore alternative troubled asset resolution strategies. *Could staff elaborate on what alternative strategies are recommended given the current financing constraints?*

**On the structural front,** steadfast reforms are crucial to the region's competitiveness and inclusive growth. In addition to fiscal consolidation and financial sector reform, long-term commitment to implementing structural reforms in investment and business climate, public sector efficiency and labor market reforms will be instrumental to enhancing the region's competitiveness. We welcome the ECCB's initiative to modernize the payment systems and to promote digital transformation. Building resilience to natural disasters is also critical to promote sustainable and inclusive growth. In addition, we encourage the authorities to further improve external sector statistics for better assessment and sound policymaking.

With these remarks, we wish the authorities all the success in these challenging times.

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GRAY/21/1062

April 22, 2021

**Statement by Mr. Trabinski, Ms. Wehrle, and Mr. Makhammadiev 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 the informative Buff statement. We agree with the thrust of staff appraisal and offer a few comments for emphasis.

**We agree with staff that further strengthening fiscal policy frameworks will be crucial to preserve the credibility of the debt and fiscal anchor.** While we understand the need to postpone the regional debt target of 60 percent of GDP from 2030 to 2035 to support the near-term recovery, we encourage the authorities to credibly commit to resuming gradual fiscal consolidation once the recovery is entrenched, including through strengthened rules-based fiscal frameworks and budget processes. Deepening regional cooperation in the fiscal domain could greatly help build stronger fiscal institutions and policies. We therefore see merit in staff's recommendations to implement regional common standards and arrangements to guide national fiscal policies, establish a regional body for fiscal oversight, and incentivize compliance with debt sustainability benchmarks. For highly indebted countries in the currency union, it is imperative to fully implement medium-term fiscal strategies and fiscal reforms to strengthen public debt sustainability. ECCU countries that have high near-term financing gaps are advised to rationalize non-essential spending and rely on concessional borrowing from IFIs.

**The authorities should continue to monitor financial stability risks closely, notwithstanding the broadly sound prevailing indicators.** As the pandemic will likely amplify existing vulnerabilities in the financial sector, the authorities urgently need to prepare robust plans to address NPLs as well as encourage capital preservation. To this end, the authorities should expeditiously find sustainable funding options for the Eastern Caribbean Asset Management Corporation (ECAMC) and/or hire private sector asset management companies, as mentioned in the Buff statement. In addition, non-bank supervision could be strengthened. We also agree that the authorities need to expedite

formalization of comprehensive crisis management plans at the regional and national levels. We note that a number of important financial sector reforms, including on credit reporting, insolvency frameworks, and AML/CFT supervision, remain outstanding and encourage the authorities to complete them with due consideration given to the capacity of the relevant institutions.

**The ECCB should continue to keep a high backing ratio to safeguard the quasi-currency board.** The currency board arrangement has been serving the ECCU well for decades. We commend the ECCB for maintaining the backing ratio above legal requirements by limiting credit provision. This practice will need to continue to reduce likelihood of a currency crisis, as illustrated by staff's analysis. Finally, structural reforms to improve competitiveness and resilience of the regional economy in the medium-term should accelerate. In this context, we note the launch of the digital currency pilot by the ECCB, which is a step toward a more digitalized economy. At the same time, we encourage the ECCB to take into consideration the risks and implications related to bank disintermediation, data privacy, and cross-border payments among others. We also encourage staff to share the lessons learned from this pilot with the Board.

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GRAY/21/1064

April 22, 2021

**Statement by Mr. Buissé, Mr. Rozan, and Ms. Albert on Eastern Caribbean Currency  
Union  
(Preliminary)  
Executive Board Meeting  
April 26, 2021**

We thank staff for their detailed report and Ms. Levonian and Ms. Edwards for their informative Buff statement. Beyond managing the difficult health situation, ensuring fiscal and external sustainability are the main challenges for the ECCU countries, which calls for both domestic and external solutions to help ECCU countries build a sustainable, resilient and inclusive recovery. External risks remain significant and can have a strong impact on the outlook, as exemplified by the recent eruption of the Soufrière volcano. In this regard, we wish to express our solidarity with the people of Saint Vincent. We generally share staff's appraisal and would like to add the following comments:

**The pandemic is having a very strong economic impact on the ECCU and exacerbated pre-existing vulnerabilities.** The recovery remains highly uncertain, depending on the vaccination path, especially in the tourism sector, where resumption of pre-COVID arrival levels will likely take several years. Despite seeing some merit on a coordinated strategy at the regional level to allow visitors at the beginning of the pandemic, country-specific approaches ended up prevailed during the first opening phase. *Could staff comment on a possible improvement of regional coordination for the tourism reopening strategy?* The pandemic exacerbated pre-existing vulnerabilities and the persistent output loss of around 12 percent of GDP through 2025 is a key challenge to address, with structural reforms needed to help build a more sustainable, resilient, and inclusive recovery. More emphasis could have been put on the report on the need to boost potential growth with competitiveness, regional integration and, while difficult, diversification of the economies. *Finally, could staff give us an update on Saint Vincent's outlook, in light of the recent volcano eruption?*

**The most important challenges of several ECCU countries is to fill the financing needs while implementing structural reforms. UCT programs can play a key role to answer these challenges, and in particular to smooth the adjustment.** Multilateral financing already played a critical role to face the crisis, including the DSSI, but the needs remain large. We note in particular that many countries had to cut overall spending in nominal terms due to financing constraints. IMF played its part to help countries in need with financings of around 59 M SDR in the context of the emergency response, and could continue to bring his

support and advice in the context of UCT programs. We strongly encourage country authorities that need it to enter into UCT programs with the Fund. The sooner will be the better to avoid more important adjustment later, and we encourage a close dialogue between staff and the authorities to be able to conclude more arrangements in the Caribbean. Having a more regional approach, as it was done in the case of other unions, may help. *Does staff have new information regarding the regional initiative “Caribbean Economic Reform and Transformation” to help reduce a potential IMF stigma?* Designing and implementing resilience strategies as part of these arrangements would be important. Moreover, we thank staff for their interesting Annex IV and we continue to encourage the use of state contingent debt instrument to help deal with natural disasters, as it was done with Grenada and Barbados through hurricane clauses. Domestic policies are also paramount to deal with fiscal and external imbalances, and to build a sustainable, resilient and inclusive recovery. We thus encourage the mobilization of domestic resources and the comprehensive and progressive tax reforms.

**We fully share the need to extend the regional debt target of 60 percent of GDP from 2030 to 2035 while anchoring fiscal credibility in the long term.** We welcome the fiscal measures adopted to protect the most vulnerable. In the short-term, given fiscal constraints, expenditures need to be prioritized. In addition, reaching the regional fiscal target was already challenging before the pandemic and the public debt increased from 67 percent of GDP in 2019 to 84 percent in 2020. We thus share the change from 2030 to 2035, and also the need to have long-term fiscal commitments to ensure policy credibility (and therefore avoid a spike in sovereign risk premia). Regional common standards and arrangements, with cooperation on tax incentives as well as a regional fiscal oversight body would be useful in this sense, and TA should play a key role. Moreover, the resilience against natural disasters should be a main pillar in the fiscal policy framework. We also encourage staff to gradually develop CCPAs in all the ECCU countries.

**We encourage the authorities to continue their efforts to deal with financial vulnerabilities.** We welcome the limited impact so far of the pandemic on the financial sector and the absence of adverse effects on the CBRs. We agree with the importance of act proactively on the issue of NPLs, as they could triple in the next three years, as well as to establish crisis management plans. We continue to see the reinforcement of the AML/CFT framework and tax transparency standards as top priorities, as well as a stronger regulation and supervision of nonbanks. The financial integrity of the region’s CBI schemes should be ensured to avoid illicit activities and reputational risk. *Could staff update us on the progress made thanks to ensure the harmonization of the regional AML/CFT framework with FATF standards?* We also agree that more work needs also to be done on the regional macroprudential framework and to mitigate CBR risks. We also note the importance of keeping a robust backing ratio to safeguard the quasi-currency board. This type of exchange rate regime limits the exchange rate as a shock-adjustment mechanism, and we note that according to EBA-lite the exchange rate could be overvalued and affect competitiveness. *Could staff describe what is the best exchange rate strategy for the ECCU countries in the long term?*

**Finally, we also welcome the technical assistance dedicated to the region as capacity has been repeatedly identified as a major obstacle to boost growth.** We thank staff for the informational annex dedicated to CARTAC.

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GRAY/21/1065

April 22, 2021

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

We thank staff for their reports and Ms. Levonian and Ms. Edwards for their helpful Buff statement. We recognize that the Caribbean region is experiencing a persistent economic downturn from the COVID pandemic, and we welcome that emergency financing provided by the IMF, combined with support from other institutions, has helped mitigate the immediate impact from the crisis. We agree with staff's analysis and broadly support adjusting macroeconomic targets to allow for continued fiscal support while the region recovers from the crisis. Finally, we encourage staff and regional and national authorities to work closely together to on recovery going forward.

**We support the authorities' decision to postpone the timeline for meeting the regional debt target to 2035, given the need to maintain fiscal support during the pandemic.** We agree with staff that member countries will need to turn to fiscal consolidation once economic recovery from the pandemic is firmly underway. In order to restore credibility of the revised debt target, we agree with staff's recommendations to establish a regional fiscal oversight council to assist national authorities and common standards to guide national fiscal policies. Over the longer-term, greater regional fiscal consolidation, including coordination of tax incentives and Citizen-by-Investment programs, can help bolster revenues and avoid a "race-to-the-bottom." We agree with staff that member countries should use the fiscal space afforded by delaying the debt target to boost infrastructure investment spending to raise long-term potential growth.

**We strongly encourage ECCU countries with high public debt levels and structural fiscal deficits to consider engaging with the Fund to support their plans to return to sustainability over the medium term.** Where appropriate, some member states may benefit from entering into UCT programs that can provide the support and structure to while the authorities implement strong reform programs to restore fiscal and debt sustainability over the medium and longer term. We would encourage staff to work with the ECCU on securing the necessary assurances for successful programs.

**We agree that widespread vaccination will be critical to recovery.** We note staff's cautious baseline scenario that tourism arrivals will not fully recover until 2024. *As vaccination rates have accelerated in key tourism source markets (U.S. and UK especially) have staff adjusted their projections or seen any indications of a tourism rebound that would suggest a faster recovery?*

**We urge the authorities to closely monitor the ECCB's digital currency pilot,** paying particular attention to risks related to financial intermediation, cybersecurity, financial access and reputation, and third-party provider concentration. *Can staff provide an update on the CBDC project, the status of its rollout, and an assessment of how the ECCB has addressed some of the risks mentioned above?*

**We encourage staff and the authorities to closely monitor the financial sector,** given rising NPLs that are expected to triple to nearly 30 percent over the next three years. Improving bank balance sheets should be an ECCU priority. It is vital that banks play a role in economic recovery and expand access to credit. The ECCU should focus on regional efforts to reduce NPLs, including through both legal/institutional reforms and through Eastern Caribbean Asset Management Corporation (ECAMC) purchases.

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GRAY/21/1067

April 22, 2021

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

We thank staff for the very informative papers and Ms. Levonian and Ms. Edwards for their comprehensive Buff statement. COVID-19 has hit ECCU countries very hard. Containment measures were initially effective in controlling the spread of the virus, but gradual reopening has led to a surge in cases. Enhanced fiscal, liquidity and financial support helped mitigate the immediate economic impact and protect the most vulnerable. However, the economic outlook is sobering, and uncertainties remain very high as the pandemic evolves. This will put significant pressure on public finances, the financial sector and ECCB international reserves.

**Due to the dependence on tourism, growth has been severely impacted, fiscal positions have deteriorated, and public debt levels are likely to be elevated for some time.** Given this, we agree with staff as to the challenges ahead and the need to focus on a short-term strategy of protecting the most vulnerable and minimising permanent scarring, whilst protecting medium-term debt sustainability, strengthening fiscal frameworks and addressing financial vulnerabilities. When conditions allow, polices should then focus on the long-standing issues of fiscal sustainability, strengthening the financial system, implementing structural reforms and protecting against natural disasters.

**A focus on protecting lives and livelihoods through critical COVID-related spending remains key to limit the economic and social impact of the pandemic.** This should involve strengthening health polices such as testing and tracing and vaccine roll out, whilst focusing financial support on the most vulnerable. Given near term financing constraints, we agree that non-essential spending should be rationalized. For many ECCU members IMF supported programs could play an important role in protecting essential spending and safeguarding medium-term stability. *Can staff update us on the latest discussions with ECCU members states regarding UCT quality programs?*

**We support the extension of the regional medium-term debt target, but credibility of the revised debt anchor must be maintained.** Postponing the medium-term debt target is necessary to create near-term fiscal space to support the recovery, but this needs to be done in a credible way to maintain confidence. This should include instituting regional standards and arrangements to guide national fiscal policy frameworks and the creation of a regional fiscal oversight body to promote fiscal transparency. Well-tailored national fiscal frameworks and rules will also be important and should be underpinned by targeted technical assistance. National Disaster Resilience Strategies are also required to further integrate climate shocks into national fiscal frameworks.

**The financial system remains relatively sound with sufficient buffers, but there are heightened risks around the evolution of NPLs which should be addressed.** Continued support to financial institutions to help mitigate the short-term impact of the crisis will be important. Loan deferrals and the increasing risks from NPLs mean that financial vulnerabilities are rising. We agree that extensions to loan moratorium should be limited to the ECCU timeframe and any restructurings done on realistic terms. Crisis management plans should be put in place quickly at both the regional and country level with clearly articulated roles and responsibilities to ensure systemic risks are contained. Given the likely increase in NPLs, credible strategies need to be put in place now to support the reduction of trouble assets. In addition, the ECCB should maintain a high backing ratio to safeguard the currency board.

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GRAY/21/1068

April 22, 2021

**Statement by Mr. Andrianarivelo, Mr. Sylla, and Mrs. BoukpeSSI on Eastern Caribbean  
Currency Union  
(Preliminary)  
Executive Board Meeting  
April 26, 2021**

We thank staff for the informative report on Common Policies of Eastern Caribbean Currency Union (ECCU) Member Countries and Ms. Levonian and Ms. Edwards for the insightful Buff statement. We broadly concur with staff appraisal and policy recommendations and would limit our comments to the following points.

**The Covid-19 pandemic has severely impacted the region.** As a result of the shock and the stringency of containment measures, economic activity and tourism have contracted, fiscal vulnerabilities have exacerbated, and the current account deficit has widened while unemployment levels have increased. In this context, we commend the ECCU national authorities and the central bank, the ECCB, for the swift response this crisis which have been instrumental in containing the first wave of the pandemic, protecting lives and mitigating the socio-economic impact of the pandemic.

**Economic recovery in the region is projected to remain subdued, with a significant permanent output loss relative to pre-crisis projection.** Uncertainty over the near and medium-term outlook remains extremely high and is subject to pandemic dynamics and vaccine developments. *In this context, we appreciate Box 1 of the report on the Access to Vaccines and would like staff to provide an update on the ongoing strategies (both at national and regional levels) to acquire and distribute vaccines across the ECCU countries?* Significant downside risks also include socio-political discontent, natural disasters, cyber-threats, and the loss of Correspondent Banking Relationships (CBRs). *On the socio-political situation, could staff also update us on the social tensions related to the pandemic and the authorities response? Is it the case in all ECCU members?* We agree with staff that near-term priorities should remain focused on addressing the health crisis. As the recovery is evident and fully entrenched, policies will need to focus on limiting the economic long-term effects of the pandemic while maintaining debt sustainability, addressing financial sector vulnerabilities, and moving ahead with the implementation of outstanding and bold reforms.

**Fiscal policies should remain supportive to mitigate the social and economic fallout of the pandemic until the recovery is firmly under way.** Given, the scarcity in financing resources and the elevated level of public debt, countries authorities face serious constraints in their attempt to reopen the economy and protect lives and livelihoods throughout the pandemic. In this respect, we support the authorities' call for greater access to concessional financing for small island countries considering the region's extreme vulnerability to external shocks, notably to natural disasters and climate change, and the paramount urgency to secure rapid distribution of Covid-19 vaccines. At the same time, it will be important to ensure that fiscal policy measures are appropriately targeted and sequenced to prevent deeper scarring effects of the pandemic, reinforce the regional and national macro-fiscal frameworks, and boost potential growth. We welcome the recent ECCU's decision to extend the regional debt target date from 2030 to 2035. This will help create the needed fiscal space to maintain policy support and put the economic recovery on a solid footing. We also agree that this decision should be accompanied with measures to safeguard the credibility of the debt anchor and secure market confidence.

**The common monetary policy has served the region well and we note the ECCB policy objective in maintaining a strong currency.** That said, the Eastern Caribbean (EC) dollar, being pegged to the US dollar, *staff insights would be appreciated on the expected effects of the recent US fiscal stimulus policies on inflation and on the monetary policy of the Union.*

**Close monitoring of the financial sector is warranted to tackle emerging credit risks posed by the pandemic and the withdrawal of financial support measures.** To address deterioration of asset quality, concentration of assets exposure and a surge in nonperforming loans (NPLs), we concur with staff on the need for supervisors to swiftly ensure that banks have strong risk-management framework and that the loan moratoria will cease as planned by the ECCB. Credible strategies for NPL reduction notably through the ECAMC or other alternate private solutions are also warranted. Efforts to formalize the crisis management framework at both national and regional levels should be stepped up for systemic risk monitoring and greater financial integration. Pursuing the implementation of outstanding reforms such as the harmonization of regulation for the non-banking sector, enhancement of the AML/CFT framework, the move toward Basel II/III regulatory regimes and further steps in tackling loss of CBRs when time is appropriate will be key to boost financial sector stability and build resilience.

**Finally, we welcome the ECCB Program of Action for Recovery, Resilience and Transformation (PARRT)** that would help enhance the region's competitiveness, including through digital transformation, boost growth, and increase resilience in the context of the quasi-currency board arrangement. The recent ECCB launch of the world's first retail central bank digital currency (CBDC) –Dcash– is commendable and positively contribute to the implementation of the PARRT as underscored in the Buff statement.

With these remarks we wish the ECCU authorities success in their future endeavors.

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GRAY/21/1073

April 22, 2021

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

We thank staff for an insightful report and Ms. Levonian and Ms. Edwards for their helpful Buff statement. The countries of the Eastern Caribbean Currency Union (ECCU) have been hit hard by the COVID-19 crisis, especially the most tourism-dependent economies. Overall, the ECCU's GDP contracted by 16 percent, its members' fiscal positions and current accounts deteriorated substantially. The near-term outlook is projected to be weak and risks are high amid the uncertainty of the pandemic outlook. The region is also one of the most vulnerable to natural disasters, including those related to the climate change. Therefore, the authorities' policies should be aimed at achieving macroeconomic stability, sustainable growth, and economic resilience. As we broadly agree with the staff recommendations, we will make a few points for emphasis.

We agree that the immediate priority is to protect lives and livelihoods of people, and the implementation of the effective vaccination campaign is critical in this respect. It will also help to revitalize the critically important tourism sector. A 20 percent coverage under the COVAX Facility is clearly insufficient. The authorities should actively collaborate with all partners to maximize access to vaccines, and additional bilateral assistance can make a difference.

We take note of the ECCU's decision to extend the 60 percent of GDP regional debt target date from 2030 to 2035. While the previous date has become unfeasible to many ECCU's economies, this decision should be complemented by strengthening the rules-based fiscal frameworks to guide the medium-term fiscal consolidation and to maintain confidence in the regional fiscal anchor.

Continued deterioration of banks' asset quality, obfuscated by a temporary regulatory forbearance, is a concern. Financial system risks are gradually increasing. 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. The authorities are also well advised to develop strategies to promote NPL reduction, including addressing funding constraints of the Eastern Caribbean Asset Management Company, while strengthening national asset recovery frameworks.

The recent introduction of the “DCash” – the central bank digital currency -- is an important step, as it became the world’s first CBDC in the currency union. *We would appreciate it if staff could provide additional information on this project.*

With these remarks, we wish the authorities success.

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GRAY/21/1074

April 22, 2021

**Statement by Mr. Mouminah, Mr. Alhomaly, and Mr. Rawah 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 useful Buff statement. The COVID-19 pandemic has hit the ECCU countries hard triggering a significant slowdown in economic activity, a sharp deterioration in fiscal positions, along with an anticipation of elevated debt level for years to come. The authorities in the region have responded swiftly underpinned in part by multilateral and bilateral financing. Following the successful initial containment, however, COVID cases have surged subsequent to the lifting of restrictions, which undermines the prospect of recovery. Also, ECCU is confronting immediate challenges particularly with regard to addressing financing needs to support policy measures towards fighting the pandemic and limit scarring, in addition to longer-term issue regarding ensuring fiscal and financial stability. Although a swift dissemination of effective vaccines is an upside risk, downside risks to the outlook are exceptionally high. In this context, we see scope for deeper fiscal and financial integration and coordination of policy measures at the regional level as well as steadfast efforts towards advancing structural reform agenda and macroeconomic performance. Against this background, we are in broad agreement with staff's analysis and policy recommendations and would like to highlight the following issues.

1. **We continue to see the regional debt target as an important anchor of ECCU fiscal policies and support the ECCU's decision to postpone the target date by five years to 2035 in view of the current circumstances.** In addition to the expected difficulty of achieving the target by 2030 for some countries, this would allow some space to support policy measures towards promoting economic recovery, protecting the lives and livelihood, and cushioning the socioeconomic impact of the health crisis more generally. This should be complemented with further steps towards strengthening revenue mobilization, enhancing the efficiency of spending while relying on concessional financing, especially where large financing gaps and debt sustainability concerns are major issues. *We wonder if the authorities*

*have already developed contingency fiscal measures, should the pandemic proved to be protracted than anticipated. Staff's comments are welcome.*

2. **We echo staff's call for by further strengthening the fiscal framework with a view to preserving the credibility of the revised fiscal anchor.** In this connection, we see merit in the staff's proposal to adopt regional common standards as well as to establish a regional fiscal oversight entity to help guide the fiscal responsibility frameworks and fiscal reforms at the national level in a well-coordinated manner. *On the latter, we note the authorities' preference not to proceed with this matter due to legislative approval issues, and therefore, invite staff to comment whether it will be part of the authorities' future plans going forward.* Also, fiscal reforms should proceed as soon as feasible, including with regard to further improving budget processes and public investment management supported by tailored TA where required.

3. **We positively note that the financial system remains broadly resilient, however, addressing existing vulnerabilities should be prioritized together with advancing financial sector reforms.** On credit risk, we welcome the ECCB's decision to allow loan moratoria to expire by September 2021 and the ongoing efforts focusing on better assessing the banking system health which could help better identify troubled assets. We encourage concrete and coordinated efforts to reduce NPLs, including through considering sustainable funding options for ECAMC while addressing remaining shortcomings in the national legal frameworks. We echo staff's view regarding formalizing crisis management plans at both regional and national levels expeditiously, developing regional macroprudential framework, and moving towards Basel III/II regulatory regimes. The loss of CBRs remains a significant risk, and thus, we welcome the ongoing efforts to prevent further loss of CBRs, including by further improving the AML/CFT framework, as noted in the Buff. We also welcome the ECCB's strong commitment to safeguarding the currency board with a strong backing ratio.

With these remarks, we wish the authorities further success.

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GRAY/21/1077

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.

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GRAY/21/1084

April 22, 2021

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

1. We thank staff for the comprehensive reports and Ms. Levonian and Ms. Edwards for the helpful Buff statement. We broadly concur with the staff appraisal and recommendations and offer the following comments for emphasis.
2. The COVID-19 pandemic has had a devastating impact on the ECCU economies. While the halt in tourism has led to a loss in export income with spillover effects on other sectors of the economy, measures taken to contain the virus have restricted domestic activity. Consequently, the ECCU economy is expected to contract by 16 percent in 2020 and by a further 0.5 percent in 2021 before an anticipated recovery in 2022. The sharp drop in tourism together with the higher expenditures needed to contain the virus have led to large financing gaps in the Balance of Payments and government budgets. The small size of these island nations together with their vulnerability to weather related crises, further undermine their external and fiscal sustainability. Emergency financing from the IMF and financial support from other IFIs have helped some countries in the region cope with the fallout from the pandemic while the G-20 DSSI initiative has also benefitted some nations. Given the common shocks facing countries in the ECCU region, we see scope for further strengthening and advancing regional co-operation. Deeper policy integration amongst the ECCU countries would enhance their resilience and strengthen macroeconomic stability.
3. **Stronger fiscal co-ordination and cooperation is essential for the region to place public debt on a firm downward trajectory.** Rising fiscal deficits and elevated debt levels pose a challenge to ECCU countries faced with the need to combat recession conditions and protect lives and livelihoods in the near-term and debt sustainability concerns in the medium term. We see merit in the postponement of the regional debt target of 60 percent of GDP to 2035 to provide the near-term fiscal space needed to support the economic recovery while creating policy space for public investment crucial for long term growth. The regional debt target will also anchor the fiscal

policies of the ECCU countries. The extension of the target date should be credibly supported by regional standards to guide national fiscal policy frameworks to ensure timely adjustment of fiscal measures, limit adverse spillovers and provide a common platform for effective co-ordination and surveillance of fiscal policies of member countries. In this context, we support the staff recommendation for a regional fiscal oversight entity which could also assist members with technical support on fiscal policy matters. We concur with the staff that improvements to national fiscal frameworks and rules would be key to the success of the reframed regional anchor. We encourage the Fund to continue with the provision of technical assistance to national authorities to build-up capacity including on national disaster resilience strategies and state contingent debt instruments to take account of climate related shocks on fiscal sustainability.

4. **Safeguarding financial stability is a priority.** While accommodative financial policies have been appropriate in the immediate aftermath of the pandemic, we agree with the staff that loan moratoria should be phased out and any subsequent restructurings should have realistically achievable repayment terms. We note that caution should be taken regarding banking sector asset quality as the tourism shock is expected to result in a threefold increase in NPLs during the next three years, weighing on credit activity and raising fiscal contingent liability risks. We note that credit risks in the credit union sector may also exacerbate in the future due to rapid lending growth experienced earlier on the back of less stringent lending standards and limited loan diversification. As significant NPLs can result in thin capital adequacy margins, it is imperative that the authorities monitor risks to financial stability going forward and consider strategies to improve asset quality, including legal frameworks for asset recovery. We concur with staff that crisis management plans need to be expeditiously implemented at regional and national levels to ensure the effective containment of system wide risks.
5. **Progress on structural reforms is essential to boost growth and improve competitiveness.** We welcome the ECCB Program of Action for Recovery, Resilience and Transformation (PARRT) aimed at enhancing financial stability, fiscal and debt sustainability, resilient and inclusive growth and payments modernization and digital transformation. We welcome the implementation of this program both at the national and regional levels. The adoption of such a program will help the recovery process while moving the region towards resilient, sustainable and inclusive economic growth.
6. With these remarks, we wish the authorities success in their future endeavours.

## **ECCU – Discussion on Common Policies of Member Countries**

Responses to Technical Questions Posed by Executive Directors in Advance of  
EBM/21/40—APRIL 26, 2021

*Staff's responses to technical questions are below.*

### **Outlook**

**1. We would appreciate further elaboration on the authorities' more optimistic growth prospects for 2021 than staff's?**

- The authorities' growth projection is based on the assumption of a full reopening and return of international flights and cruise ships by the fourth quarter of 2021, while staff's projection is based on a more conservative assumption on the pace of the recovery—total tourist arrivals are assumed to decline further in calendar year 2021 compared to 2020, given that the current tourism high season (December to May) is still heavily affected by the pandemic and the recovery in tourism might only start at end-2021. Nonetheless, staff's projection is based on information available at the time of the mission and subject to exceptionally high uncertainties related to vaccine access and the general trend of international travel in the post-pandemic environment. A faster-than-expected recovery of tourism would present an important upside risk to staff's projections.

**2. As vaccination rates have accelerated in key tourism source markets (U.S. and UK especially) have staff adjusted their projections or seen any indications of a tourism rebound that would suggest a faster recovery?**

- Indeed the vaccination rate in the U.S. and the U.K. (the two major source markets for the ECCU) has accelerated and this is good news for tourism prospects in the ECCU. However, this might not have a big impact on the current tourism season (ending in May) given renewed local outbreaks and lockdowns, low hotel occupancy rates, prolonged lockdown in the UK until May, suspension of flights from Canada to the Caribbean until end-April 2021, slow vaccination rollout in other major tourism source markets (Canada, Europe and the Caribbean), and increased costs to travelers arising from COVID-19 testing and quarantine requirements for arrival and departure. On balance, staff remain cautious about the pace of tourism rebound in the near term.

**3. While we agree that avoiding over-optimism is a sound approach, staff's further comments on why the balance of risks to the outlook is judged to be on the downside to the already conservative forecast would be appreciated.**

- The outlook rests on a set of assumptions that could turn into a more negative outlook, with prospects which disproportionately outweigh upside risks. These include uncertainty with regards the COVID-19 pandemic evolution given slow rollout of vaccines in some countries and new variants, including contagion spikes globally that could delay further the recovery of tourism or in the ECCU which would require new lockdown measures; natural disasters which remain a recurrent threat and affect ECCU countries at a macroeconomic scale given small size (the eruption of the St. Vincent volcano is a good reminder); tail risks to financial

stability outlined in the staff report including loss of confidence in the currency and/or in the solidity of financial institutions; cyber-attacks; and potential loss of CBRs.

**4. Could staff comment on a possible improvement of regional coordination for the tourism reopening strategy?**

- The coordination for a regional opening to tourism will remain a function of the progress on containing the contagion of the COVID-19 pandemic and vaccination progress in the region and globally. To that end, ECCU countries introduced measures at the outset of the pandemic, including a regional bubble to allow for regional traveling from country sources deemed as low risk. Over time, however, some of these measures proved difficult to sustain because of different country preferences with regards contagion risk and the economic cost of lockdowns and closure to international tourism, which vary asymmetrically across countries.
- ECCU countries remain cooperative on the coordination of their opening strategies to tourism, understanding their differences, and guided by regional institutions that advice countries on health and opening strategies, including the OECS and CARPHA. For example, the initiative to obtain vaccines as a region under the COVAX facility helped all countries obtain vaccines. Moreover, some countries that received vaccines through bilateral agreements offered some to other ECCU members for free to strengthen regional herd immunity. Other measures include coordination of inter-island air traffic, enforcement of protocols in airports upon landing and in flight, and designation of quarantine facilities and requirements in each country.
- Some countries such as Dominica have introduced a “Safe in Nature” program that invites visitors to stay in specific hotels and enjoy pre-set tourism activities within quarantine protocols, and are offering extended visas for workers willing and able to use technology and work from the Caribbean. These types of initiatives are being discussed regionally and could be extended to all ECCU countries when the conditions allow it.

**5. Does staff have new information regarding the regional initiative “Caribbean Economic Reform and Transformation” to help reduce a potential IMF stigma?**

- The CARICOM leaders have created a Caribbean Economic Recovery and Transformation (CERT) Plan, which has been devised by a regional team of experts under the leadership of Barbados Prime Minister Mia Mottley, to cope with the COVID-19 pandemic. The group has been discussing the impact of the COVID-19 pandemic and the financing needs for the region, and advocating for the region in different fora, including with the Fund.

**6. In this context, we appreciate Box 1 of the report on the Access to Vaccines and would like staff to provide an update on the ongoing strategies (both at national and regional levels) to acquire and distribute vaccines across the ECCU countries?**

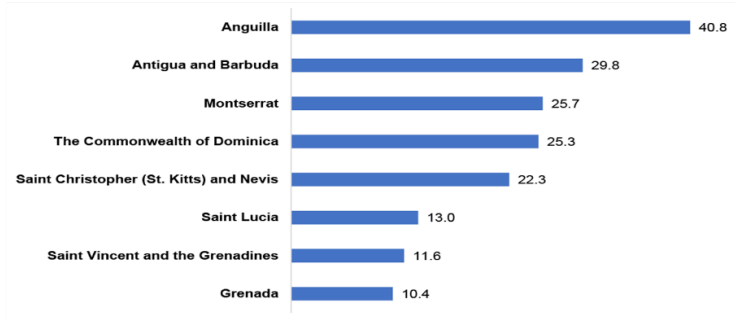
- The ECCU countries expect to receive vaccines under the COVAX facility for 20 percent of their population. As of April 22, the percentage of population that has received the first dose ranges from 10.4 percent in Grenada to 40.8 percent in Anguilla. Countries have also received limited numbers of doses from China, India and Russia. They have called for a

rapid, equitable and affordable rollout of vaccines globally to ensure a broad economic recovery.

### Tracking COVID-19 in the Eastern Caribbean Currency Union

Data as at 9:00 a.m. - 22 April 2021

Percentage (%) of population administered COVID-19 vaccine (first dose)



SOURCE: ECCU Ministries of Health

**7. On the socio-political situation, could staff also update us on the social tensions related to the pandemic and the authorities response? Is it the case in all ECCU members?**

- The pandemic has not caused any major social unrest in the ECCU. Nonetheless, as indicated in the risk assessment matrix, widespread social discontent and political instability, possibly caused by longer-than-expected protraction of the pandemic impact, remain a major downside risk. It is in this regard that the staff report calls for continued policy support to protect the vulnerable.

#### Fiscal Policy

**8. 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.**

**9. In this connection, we see merit in the staff's proposal to adopt regional common standards as well as to establish a regional fiscal oversight entity to help guide the fiscal responsibility frameworks and fiscal reforms at the national level in a well-coordinated manner. On the latter, we note the authorities' preference not to proceed with this matter due to legislative approval issues, and therefore, invite staff to comment whether it will be part of the authorities' future plans going forward.**

- The authorities noted that the ECCU's current legislative framework does not provide the legal basis for a regional fiscal oversight entity, therefore legislative changes will be needed. Given that several ECCU countries have started the process of adopting national fiscal policy frameworks, the authorities were of the view that focus now should be given to develop regional standards and arrangements to guide the formulation of those national frameworks.

**10. 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 authorities have a positive view with regards issuance of SCDIs, which they see as an instrument to strengthen debt sustainability under extreme shocks. Potential market uptake of SCDI could be challenging as financial institutions, and especially banks, place a premium on liquidity and instrument simplicity when evaluating bonds' risk profiles. This said, a regional coordination of the issuance of SCDIs issued on a sufficiently large critical mass by sovereign, including within standardized conditions that include transparent and easily verifiable triggers (such as large natural disasters) could become a valuable tool not only in terms of enhancing welfare of the sovereign borrowers but also in protecting the assets of creditors by reducing the probability of defaults under such extreme circumstances.

**11. Also, we wonder about the pandemic's impact on the revenues from the Citizenship by Investment (CBI) programs across the ECCU and staff's views on the role of the CBI programs in the post-crisis period.**

- CBI revenues have held well during the pandemic, with some weakening in 2020 Q2 that was then followed by a recovery, with some cross-country variation. CBI revenue has become a large source of revenue in some ECCU economies and could play a significant role in helping the recovery from the pandemic. The Fund has advised countries to use CBI revenue within medium-term fiscal frameworks to ensure their use is consistent with the achievement of the regional debt target ceiling of 60 percent of GDP by 2035. This requires the allocation of these resources to savings and debt reduction, including in the form of a liquid buffer for insurance against natural disasters, and for public investment in infrastructure resilient to natural disasters. Maintaining high transparency and governance standards remains critical to lower perceptions of abuse of regional CBI programs.

**12. Last but not least, it is unclear whether debt projections for the ECCU as a whole incorporate any debt restructurings or reprofiling in individual countries. Additional staff comments would be welcome.**

- The referenced cumulative fiscal adjustment effort of 6 percent of GDP for the ECCU up to 2030 is the additional adjustment needed on top of staff's baseline projections to meet the original 2030 target, and it represents the regional average, meaning that countries with higher debt would need stronger adjustment than 6 percent of GDP. Staff's baseline projections do not envisage any debt operations. While financing conditions have remained largely stable in the region, countries under financing constraints will need to introduce adjustment measures to close the near-term financing gap, and, in that context, may need to consider debt operations as an option.

**13. Thus, a careful assessment will be needed of whether state-contingent instruments can be helpful to solve these issues. In addition, the literature references complex design and data quality issues as potential problems for adequate market pricing – especially the availability and quality of official statistics appears to be a challenge in the context of the ECCU. Additional staff comments would be welcome.**

- We agree that SCDIs, as have been used in the past by some countries in the context of debt restructurings, can be subject to complex design and data quality issues that can lead

to their underpricing and, as a result, become costly to the issuers. However, staff has discussed with the ECCU authorities relatively simple variants that would not be subject to such issues, such as clauses for the postponement of debt service obligations triggered by exogenous and verifiable events such as natural disasters of specified magnitude or pandemics. Staff analytical work indicates that this type of SCDIs would reduce the probability of a sovereign default under extreme shocks as mentioned, thereby reducing interest rates and facilitating access to financial markets and in normal times.

**14. Can staff update us on the latest discussions with ECCU members states regarding UCT quality programs?**

- With the support of the IFIs and bilateral development partners as well as the available market financing options, most ECCU countries are able to finance their budget deficits for the current fiscal year. For those that may still have challenges (for example Antigua and Barbuda), all available options to help fill large near-term financing gaps, including UCT-quality arrangements, are being actively explored. Staff remains closely engaged with the authorities and will continue the discussions during upcoming AIV consultations.

**15. This should be complemented with further steps towards strengthening revenue mobilization, enhancing the efficiency of spending while relying on concessional financing, especially where large financing gaps and debt sustainability concerns are major issues. We wonder if the authorities have already developed contingency fiscal measures, should the pandemic proved to be protracted than anticipated. Staff's comments are welcome.**

- Depending on the size of fiscal space, ECCU countries have contingency fiscal measures to various degrees, including using CBI revenues (Dominica and St. Kitts and Nevis), access to ECCB lending facilities (except those who have exhausted such facilities), and debt operations if necessary. Continued support from the international community and the expected SDR allocation present additional resources.

**16. What are the capacity building activities provided by staff in this area to compliment the helpful Fund financial support?**

- Staff are currently providing CD in two areas at the ECCU level: a virtual workshop on Government Finance Statistics (GFS) and Public Sector Debt Statistics (PSDS) to address data gaps and harmonize reporting standards across the currency union; and a virtual seminar on estimating fiscal financing gaps. In addition, country teams have worked closely with the authorities and CARTAC to identify and prioritize CD activities for the upcoming fiscal year. CD activities are expected to be provided in various areas depending on country-specific needs, including public financial management, revenue administration and debt management strategies. CARTAC is also supporting the authorities on how to incorporate the pandemic and climate-related shocks in their macroframeworks.

**Financial Sector Policy**

**17. Could staff share more information on the regulatory and supervisory differences between the banking system and non-bank financial system?**

- Under the existing regional supervisory framework, the banks licensed under the Banking Act are supervised centrally by the ECCB, while non-banks fall under the purview of national supervisors (Single Regulatory Units, with the exception of securities sector oversight centralized under the ECSRC). Banks follow common prudential regulatory standards building on Basel guidelines. The standards for non-bank deposit taking institutions (predominantly credit unions) are not fully harmonized across the ECCU jurisdictions, although the standards for credit unions in each jurisdiction are based on the PEARLS monitoring system set by the World Council of Credit Unions. These broadly share the same supervisory focal points such as capital adequacy, liquidity and profitability, but differ in definitions of some key indicators (e.g. credit union exposures are not risk-weighted for assessing capital adequacy), concepts (e.g. credit union NPLs are not uniformly defined across jurisdictions) and supervisory guidance (e.g. banks face stricter limitations on the number of loan restructurings). The Optimal Regulatory Framework envisages greater harmonization of the regulatory standards across the ECCU financial space. However, the AML/CFT supervision of non-banks is due to remain under national supervisors' purview.

**18. Could staff elaborate on the status of the common infrastructure and supervisory framework for non-banks?**

- At their most recent meeting on February 12, the ECCB Monetary Council agreed to recommend to member governments the adoption of a new Enhanced Regulatory and Supervisory Approach that would retain the roles of existing regional and national regulators, while establishing a new Regional Standards Setting Body tasked to ensure uniform application of regulatory standards for similar financial institutions across the ECCU financial space. Development of the new regulatory structure is still at its early stages. The exact design of the new Standards Setting Body and other reform aspects are yet to be determined and effecting the new structure would require national legislative amendments.

**19. Relatedly, we would appreciate more comments on the review of the ECCB toolkit for liquidity assistance to banks and the prospects for domestic banks to rise to the decoupling of CBRs under the recent legislative changes in the US?**

- The ECCB is still working on the review and was not in a position to share the details at the time of the mission. Existing tools are limited to a short-term lender-of-last resort facility with a bound aggregate credit allocation for the entire banking sector under the quasi-currency board.
- On the risk decoupling of CBRs owing to the recent legislative changes in the US, staff are monitoring ongoing developments, including the proposed modification of the threshold for international transfers (from \$3,000 to \$250) and the corresponding transmission and recordkeeping requirements, consistent with the international standard. Staff will engage with relevant Caribbean authorities on its potential impact to domestic banks, including with respect to the ML/TF risks associated with remittances (particularly by money value transfer services), advancement of technologies in collecting data and the cost implications.

**20. We share the concerns of the region's economies on the loss of correspondent banking relationships and would like to hear how the Fund can help, including by facilitating a dialogue among stakeholders to address these concerns.**

- Fund staff continues to implement a multi-pronged approach to addressing CBR pressures impacting the membership. This involves monitoring trends, risks and drivers, including in the context of surveillance, facilitating dialogue, tailoring technical assistance and training, and (as necessary) discussing measures in the context of IMF-supported programs. While the decline of CBRs has been slowing in the recent years, including in the Caribbean, some regions are more affected than others. In terms of facilitating dialogue, the IMF staff organized three roundtables in the region (February 2017, November 2017 and October 2018) to discuss drivers of CBR trends as well as identifying potential solutions, and has been continuing to engage with relevant stakeholders, including in the context of surveillance.

**21. Could staff update us on the progress made thanks to ensure the harmonization of the regional AML/CFT framework with FATF standards?**

- Only two members of the ECCU have so far been subject to a comprehensive AML/CFT assessment by the Caribbean Financial Action Task Force (the FATF-style regional body), namely Antigua and Barbuda (2018) and Saint Lucia (2021). In both mutual evaluation reports, the ML/TF risk of their Citizenship by Investment Programs were flagged. Despite progress in some areas, overall levels of effectiveness of the AML/CFT regime were assessed not to meet international standards. The reports assessing the AML/CFT frameworks of other ECCU member countries are expected to be published by the CFATF in the coming three years (St. Kitts and Nevis in November 2021, Dominica, St. Vincent and the Grenadines, and Grenada in May 2022, Anguilla in November 2022, and Montserrat in May 2024).
- Following the designation of the ECCB as the competent authority with supervisory responsibility of AML/CFT obligation of all financial institutions licensed under the Banking Act, LEG recently established a capacity development project with the ECCB aimed at strengthening the overall AML/CFT risk-based supervisory framework of financial institutions and to harmonize the existing AML/CFT legal framework among ECCU members in line with the international standard. In this respect, the process for reviewing all member specific AML/CFT legal and regulatory frameworks recently started. The authorities are strongly encouraged to leverage this available TA to strengthen the AML/CFT supervision of banks by the ECCB, a key element to contribute reassuring correspondent banks of the strength of the AML/CFT compliance frameworks of local banks.

**22. We would like to know to what extent there are plans to raise capital requirements to continue to comply with regulatory requirements.**

- The supervisors are encouraging deposit-taking institutions to conserve capital while the uncertainty from the pandemic persists. Beyond this, the ECCB is planning to transition to a Basel II/III regulatory regime from 2022 that may increase capital requirements for banks, but the specifics and the estimated impact remain to be determined. Potential implications to non-bank financial institutions will depend on how the envisaged common standards under the Optimal Regulatory Framework are implemented.

**23. Slow progress of the NPL resolution in the ECCU remains a concern, given the anticipated sharp increase in NPLs once the moratoria expires. It prompts for timely**

**reconsideration of the existing strategies. Staff's further elaborations on the recent progress in this area are welcome.**

**24. We take note of staff's suggestion for the authorities to explore alternative troubled asset resolution strategies. Could staff elaborate on what alternative strategies are recommended given the current financing constraints?**

**25. In light of the insufficient funding model for ECAMC to date, could staff comment on what are the alternative troubled asset resolution strategies available to the authorities?**

- Pre-pandemic at end-2019, the ECCU banking system NPLs remained elevated at around 10 percent of total loans, down from 11 percent a year earlier. Even with the moratoria, this modest gain has been reversed during the pandemic and at end-2020 NPLs stood back at 11 percent (roughly EC\$1.5 billion). Much of the prior NPL reduction has so far relied on banks' internal asset recovery efforts and write-offs. Following protracted negotiations, the ECAMC in 2020 agreed acquisition of first NPL tranches from licensed financial institutions funded largely from its capital base (initially about EC\$40M), and acquisition of further NPL tranches are under discussion. However, in absence of government guarantees or other funding sources, its capacity for more acquisitions is very limited. Staff is not aware of any private sector NPL acquisitions since the last regional consultation.
- In staff's view, the expected broad-based increase in NPLs across the ECCU banking system and national financing constraints gives renewed impetus for exploring regional solutions. These should include revisiting sustainable funding options for the ECAMC that has a confirmed mandate for NPL acquisitions, but may be complemented by other approaches, such as decisively addressing impediments to national asset recovery processes. The more stringent provisioning requirements from January 2022 under the ECCB's Treatment of Impaired Assets standard may also facilitate bank sales of distressed assets to private sector investors.

## **Digitalization**

**26. Finally, we would like to learn more about the launch by the ECCB of the digital currency DCash on March 31, 2021, as indicated in the Buff statement. Staff's comments would be welcome.**

**27. We were a bit surprised to find little follow-up on the ECCB's work on a digital currency in this year's report and recall that the Fund has encouraged the authorities to proceed cautiously in the past. Additional staff comments would be welcome.**

**28. Can staff provide an update on the CBDC project, the status of its rollout, and an assessment of how the ECCB has addressed some of the risks mentioned above?**

**29. The recent introduction of the "DCash" – the central bank digital currency -- is an important step, as it became the world's first CBDC in the currency union. We would appreciate it if staff could provide additional information on this project.**

- On March 31, 2021, The Eastern Caribbean Central Bank (ECCB) issued its own central bank digital currency (CBDC), DCash, to address payment system inefficiencies and high costs—it is the first currency union central bank to do so. The initiative was prompted by the high cost of payments-related banking services and slow adoption of new technologies by the private sector.
- After a delay due to the pandemic, DCash is being rolled out as a pilot with the participation of 15 financial institutions in four of the eight ECCU member countries (Antigua and Barbuda, Grenada, Saint Kitts and Nevis, and Saint Lucia). The digital currency can be obtained from participating financial institutions using cash or deposits and can be used by financial institutions, merchants and retail customers for both domestic and cross-border (albeit only to other participating ECCU countries, which share the same currency) transactions.
- Private financial institutions continue to play a central role in DCash transactions. The ECCB will have the sole authority to issue and redeem the digital currency and will be able to fully control its supply. Financial institutions will continue to interact with customers and carry out the relevant AML/CFT requirements, including the necessary customer due diligence measures, given their comparative advantage in the area, and clients will have no direct access to the ECCB accounts. As the supervisor, the ECCB remains responsible for ensuring that financial institutions are compliant with the AML/CFT regulatory framework.
- Staff continues to encourage the authorities to proceed cautiously to contain various risks. Some safeguard measures are embedded in the design of the digital currency: the size of its holding and transaction values are limited, with no interest accrued and no use for foreign exchange transactions. As outlined in 2019 ECCU regional Article IV consultation, staff advised that the authorities fully implement safeguard measures to contain various (and not fully known) risks to the ECCB and the financial system, including those related to financial intermediation, financial integrity, cybersecurity, and data and privacy governance. Following the pilot, the ECCB is planning to thoroughly review its results.

**30. We would also like to hear from staff how leveraging digital tools can be helpful in facilitating payments and addressing the loss of correspondent banking relationships.**

- Fintech solutions have been widely identified as having the potential to provide alternatives to CBRs. In the margins of the Spring meetings, Fund staff hosted a session on cross-border payments, focusing on safe payment corridors (to streamline and simplify compliance processes for lower risk, small value cross-border payments), digital identity (to ensure identification of marginalized segments of the population), and multilateral platforms (to lower costs and reduce settlement times). They all are promising emerging solutions which can help make remittance faster, cheaper, and more inclusive, including by supporting customer due diligence requirements. Fund staff is also contributing to international efforts by the G20 and the Financial Stability Board on enhancing cross-border payments.

**31. As part of this program, we take note of the launch of the DCash digital currency and would welcome staff elaboration of their role in assisting to prepare for this launch and any remaining risk factors that need to be addressed.**

**32. 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?**

- Staff did not assist the launch of the DCash pilot by the ECCB. Through regular surveillance activities, including the last ECCU consultation, staff expressed caution regarding the implementation of the digital currency, especially with respect to the possibility of increasing financial system's vulnerabilities, undermining financial integrity, and exposing cybersecurity risks.
- Some recommendations, as introducing limits on holding of the digital currency, have been taken onboard by the ECCB in their pilot. The pilot, with an expected duration of 12 months, will provide an opportunity for the ECCB to examine the risks, test the design of the digital currency, and assess any policy gaps.
- MCM is in contact with ECCB representatives to (i) understand the challenges faced by the authorities in launching the pilot, with the objective to publish a collection of case studies of Central Bank Digital Currency pilots; (ii) develop a joint research project on the drivers of use of the digital currency, relying on the DCash pilot's transactions data; (iii) provide informal support on the design of a survey on the use of means of payments. The analysis of risk factors is not currently envisaged in these projects.

**External Sector**

**33. Could staff comment on how the expected SDR allocation will impact the backing ratio?**

- The initial impact of the SDR allocation on the backing ratio will depend on how the allocation is recorded on the ECCB's balance sheet (long-term liability or demand liability). Staff have engaged with the ECCB on this issue and are prepared to have further discussion with the authorities. In any event, the SDR allocation will provide significant liquidity support to the ECCU and can be used for budget financing without negatively affecting the backing ratio.

**34. Could staff describe what is the best exchange rate strategy for the ECCU countries in the long term?**

- As in previous discussions on the Common Policies of Member Countries of the ECCU and again this year, the staff report focused on policy consistency, that is, the necessary macroeconomic policy adjustments needed to support the given exchange rate framework, and the structural policies needed to ensure external sustainability. The lack of an adequate lender of last resort highlights the importance of fiscal discipline and of a resilient financial sector, while the fixed exchange rate imposes real economy adjustments to external shocks, underscoring the key role of structural policies. This is in line with the Guidance Note for bilateral surveillance.

**35. That said, the Eastern Caribbean (EC) dollar, being pegged to the US dollar, staff insights would be appreciated on the expected effects of the recent US fiscal stimulus policies on inflation and on the monetary policy of the Union.**

- The US fiscal stimulus is expected to create positive spillovers on output and employment in the ECCU, mainly by stimulating tourism demand in the medium term, when the US population is largely vaccinated. It may also increase inflation through imported components particularly fuel and food items through the impact of the stimulus and low interest rates in the US on commodity prices. This, however, will not affect monetary policy in the ECCU given it has a currency board arrangement and therefore no monetary policy. Any changes to credit and liquidity conditions can only be enacted through regulatory changes, which are not actively used to manage the business cycle, they have a prudential objective.

## Natural Disasters

**36. In light of the eruption of the Volcano “La Soufrière” and the evacuation efforts on St. Vincent and the Grenadines, does staff have estimates for the potential economic loss? (How do the destruction and the response so far compare to the estimates on the effects of the 1979 eruption of 20 % of total GDP?).**

**37. Finally, could staff give us an update on Saint Vincent’s outlook, in light of the recent volcano eruption?**

- There is considerable uncertainty about the evolution of eruptions at La Soufrière volcano will be. In 1979, the eruptions lasted for 7 months, whereas in 1902, they lasted for around 11 months but were more intermittent. Staff’s preliminary estimates (which build upon preliminary damage assessment by the authorities and the World Bank and combine the impact of the pandemic) point to a contraction of around 5½ percent of GDP in 2021. While the tourism activity outlook is similar to 2020 (given elevated active cases in Europe and North America) and is unlikely to be affected by the volcano, the output of agriculture-related sectors will be severely affected, with some offset by some reconstruction activity. The capital stock in the riskiest zones of the island is valued at around 384 US\$ million (or 50 percent of GDP and corresponds to around 10 percent of the total capital stock). A preliminary damage assessment report by the World Bank dated April 13, estimates the direct damages at least 100 US\$ million (13 percent of GDP) so far. In 1979, the total economic loss was estimated at about 20 percent of GDP (around US\$150 million in today’s value) but growth was positive at 3.4 percent, as strong activity in manufacturing, construction and tourism sectors more than offset a downturn in agriculture. Wholesale & retail trade and insurance sectors were also negatively affected in that year.

**38. We regret that the eruption of La Soufriere volcano is adding more difficulty to St. Vincent and its neighbors. Could staff elaborate on how it would impact the economic growth and fiscal conditions in the region?**

- The contribution of staff’s preliminary output estimates for St. Vincent noted above will detract about 0.7 percentage points from regionwide GDP. At the ECCU regional level, staff do not anticipate significant spillovers from the volcanic activity if the winds and the explosions continue the same way. In the aftermath of the first explosion of La Soufrière, airports in St. Vincent and Barbados closed with several flights cancelled and rerouted in neighboring countries. Prolonged explosions could disrupt trade channels in the region, and impact economic activity, but these channels are projected to be relatively small with limited fiscal impact outside of St. Vincent and the Grenadines. The fiscal cost for St. Vincent and the Grenadines is uncertain at this stage, but the authorities estimate volcano-related spending of around US\$69 million dollars (evacuation

and humanitarian costs of US\$58 million, plus US\$11 million on clean up spending). Staff estimate that the headline deficit will widen to 14.1 percent of GDP.

## CONSTITUENCY CODES

### OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

### OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

### OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

### OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

### OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

### OEDCC

China

### OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

### OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

### OEDEC

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

### OEDFF

France

### OEDGR

Germany

### OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

### OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

### OEDJA

Japan

### OEDMD

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

### OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

### OEDNE

Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

### OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

### OEDRU

Russian Federation and Syrian Arab Republic

### OEDSA

Saudi Arabia

### OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

### OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

### OEDUK

United Kingdom

### OEDUS

United States