



Executive Board Minutes 22/71-1

July 27, 2022–10:00 a.m.

Eastern Caribbean Currency Union—2022 Article IV Consultation with Member Countries on Common Policies of the Eastern Caribbean Currency Union

Documents: SM/22/178, and Cor. 1, and Sup. 1; SM/22/179 and Cor. 1

Staff: Munoz, WHD; Tamirisa, SPR

Length: 1 hour

ISSUED: May 8, 2023

APPROVAL: May 15, 2023

CEDA OGADA
Secretary

TABLE OF CONTENTS¹

The Acting Chair’s Summing Up	3
Executive Board Attendance	5
Discussion Record	7
Annex	24
○ Gray Statements	
○ Staff’s Responses to Executive Directors’ Technical Questions	
○ Constituency Codes	

¹ 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 Open Archives Policy.

THE ACTING CHAIR'S SUMMING UP

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the Eastern Caribbean Currency Union (ECCU) and national authorities' response to the pandemic that contributed to a nascent economic recovery in 2021. Directors noted that ECCU economies have been scarred by the COVID-19 pandemic and that spillovers from the war in Ukraine have compounded supply disruptions and transportation bottlenecks, fueling inflationary pressures. They recognized that the recovery will be gradual and uneven and that downside risks to the outlook remain significant. In that context, Directors stressed the need to focus policies on ensuring a resilient and inclusive recovery. They also highlighted the role that Fund engagement, including capacity development, and the international community could play in supporting these objectives.

Directors stressed the importance of maintaining fiscal prudence, while protecting the vulnerable, given the lingering pandemic, heightening inflation pressures, and the tightening of global financial conditions. They agreed on the need for temporary targeted transfers and called for efforts to improve the coverage and targeting of social safety nets. Directors saw merit in allowing a gradual pass-through of international energy and food prices to the domestic economy and phasing out generalized subsidies.

Directors underscored the importance of medium-term fiscal consolidation, supported by revenue mobilization, expenditure rationalization, fiscal structural reforms, and reliance on concessional financing. While noting the recent progress, Directors emphasized the need to accelerate the adoption of well-designed rule-based fiscal frameworks to support consolidation efforts and preserve the credibility of the regional debt target. They agreed that the impact of natural disasters should be internalized in these frameworks to enhance their effectiveness and credibility.

Directors noted that the financial sector remains broadly stable so far. However, they underscored the need to closely monitor asset quality and provisioning buffers, given elevated nonperforming loans, following the exit from loan moratoria. To support private sector credit growth, Directors recommended accelerating reforms to address long-standing lending and credit constraints. They noted that risks to correspondent banking relationships can be mitigated by strengthening the region's financial integrity, AML/CFT, governance, and offshore taxation frameworks. Directors called for efforts to reduce fragmentation in the non-bank supervision framework and expedite legislation to govern digitalized financial services. They welcomed recent steps by the ECCB to integrate climate risks in supervisory and regulatory frameworks and recommended that they also be integrated in crisis management plans. Noting the potential benefits and risks related to DCash, Directors urged the ECCB to raise public awareness and improve communication with end-users, reinforce capacity, and fully implement safeguard measures.

Directors encouraged further progress on structural policies to build climate resilience, strengthen competitiveness, and ensure food and energy security. They highlighted the importance of further investing in resilient infrastructure and insurance for natural disasters and accelerating the shift to renewables. Directors recommended upgrading intra-regional transportation infrastructure, enhancing regional integration, and investing in skills development.

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 ATTENDANCE²

A. Sayeh, Acting Chair

Executive Directors	Alternate Executive Directors
	Patterson C. Ekeocha (AE), Temporary
	E. Boukpepsi (AF), Temporary
	O. Hendrick (AG), Temporary
	A. Grant (AP)
A. Bevilaqua (BR)	X. Bai (CC), Temporary
	A. Guerra (CE)
P. Jennings (CO)	C. Just (EC)
	C. Roman (FF)
	H. Koh (GR), Temporary
	C. Amarasekara (IN)
	M. Massourakis (IT)
	M. Kashima (JA)
	M. El Qorchi (MD)
	A. Alhosani (MI)
	C. Eijking (NE), Temporary
	A. Marcussen (NO)
A. Mozhin (RU)	M. Alrashed (SA)
	F. Mochtar (ST)
	M. Peter (SZ)
	M. Trott (UK), Temporary
	A. Rao (US), Temporary

E. Tsounta, Acting Secretary
R. Smith Yee, Summing Up Officer
B. Zhao, Board Operations Officer
M. Eddy, Verbatim Reporting Officer

Also Present

Communications Department: J. De Haro, R. Elnagar, R. Hernandez Gomez. Finance Department: M. Mohlala. Legal Department: K. Kwak. Monetary and Capital Markets Department: G. Hosin nee Heywood. Strategy, Policy, and Review Department:

² For countries in each constituency, please see the Constituency Codes in the annex.

J. Faltermeier, N. Tabatchnaia-Tamirisa. Statistics Department: P. Tumbarello. World Bank Group: D. Boshkovski, R. Li. Western Hemisphere Department: A. Chailloux, V. Chensavadijai, N. Geng, I. Goldfajn, J. Goncalves Pereira, A. Guerson, H. Lin, J. Morsink, S. Munoz, R. Vishvesh. Executive Director: A. Andrianarivelo (AF), S. Bhalla (IN), A. BinZarah (SA), A. Buisse (FF), R. Lim (ST), M. Mohieldin (MI), P. Moreno (CE), D. Palotai (EC). Alternate Executive Director: H. Azal (EC), F. Fuentes (BR), F. O'Brolchain (CO), S. Potapov (RU), J. Romero (CE), B. Saraiva (BR), F. Sylla (AF), V. Vumendlini (AE). Senior Advisors to Executive Directors: E. Cartagena (CE), M. Choueiri (MI), R. Cunningham (CO), A. Ekelund (NO), R. Mahabir (BR), A. Medearis (US), B. Rankin (CO), J. Rojas (CE), C. Sassanpour (MD), L. Smith (CO), A. Tolstikov (RU), M. Villeneuve (CO). Advisors to Executive Directors: M. Albert (FF), F. Al-Kohlany (MI), P. Al-Riffai (MI), T. Azlan Ariff (ST), R. Bah (AF), M. Bangrim Kibassim (AF), C. Becker (AP), S. Belhaj (MD), R. Edwards (CO), J. Essuvi (AE), R. Fayez (MI), D. Hamzah (MI), R. Karl (AP), P. Khademi (GR), A. Korinthios (IT), V. Lankester Campos (CE), G. Meizer (EC), M. Merhi (MI), P. Mooney (CO), R. Moral Betere (CE), B. Piasecki (SZ), Y. Qi (CC), C. Ramos Capaquira (AG), Y. Watanabe (JA), F. Lopez (CE), A. Evangelou (UK).

DISCUSSION RECORD³

The Acting Chair (Ms. Sayeh):

The Eastern Caribbean Currency Union (ECCU) economies are facing multiple shocks, one after another—hurricanes, the pandemic, a volcanic eruption, the spillovers from the war in Ukraine, and now the tightening of global financial conditions.

The pandemic has already left scars in terms of losses of output and human capital, negatively impacting long-term potential growth. The ongoing war is exacerbating supply-chain disruptions, fueling inflation, eroding income, and threatening food and energy security, especially for the most vulnerable.

Going forward, increasing external financing costs could put pressure on fiscal and debt sustainability in the region. In this context, Article IV discussions focused on policies to ensure a resilient and inclusive recovery. Staff discussed with the authorities the importance of maintaining fiscal prudence while protecting the vulnerable and adopting well-designed, rules-based fiscal frameworks to achieve fiscal consolidation and enhance resilience to climate-related shocks and preserve the credibility of the regional debt target.

Staff also discussed key priorities in the authorities' financial sector reform agenda with the aim of addressing pandemic legacies, reinvigorating private credit growth, and reinforcing resilience to climate shocks.

Finally, staff engaged the authorities on medium-term structural policies to build climate resilience, enhance competitiveness, ensure food and energy security, and strengthen the framework for the central bank digital currency.

Mr. Jennings:

My ECCU authorities broadly concur with the staff's assessment on the main challenges and are committed to taking steps to address them. They recognize the need to address fiscal and debt sustainability issues, strengthen resilience to external shocks, and pursue a development path that fosters inclusive and sustainable growth. But the challenges are many. The pandemic

³ Edited for clarity.

and Russia's invasion of Ukraine are negatively affecting growth prospects and the authorities' plans for improving social and economic outcomes. We have issued a comprehensive statement so I will just highlight three points for emphasis.

The first is that the ECCU is a good example of negative impacts of challenges that can be faced by small states and the vulnerabilities they are exposed to from external shocks. Among small states, those vulnerabilities are amplified even more if you look at microstates.

We continue to make the case for special consideration to be given to small-developing states even while acknowledging that the Fund must be evenhanded in its engagement with its membership. We take positive note of the recent Independent Evaluation Office (IEO) evaluation of the Fund's engagement with small states, and we believe that several recommendations, if implemented, will benefit the ECCU.

We thank staff for their willingness to engage on this matter and look forward to the completion of the Management Implementation Plan (MIP) and the IEO evaluation.

Secondly, accessing finance to address vulnerabilities is key to the success of the ECCU region, overcoming the threats posed by external shocks, especially those related to climate change. Our authorities agree that climate change is macrocritical and recognize that a global approach is required to mitigate and adapt to the blunt effects that they experience. We encourage the Fund to continue its efforts to encourage and facilitate action on this most important and urgent matter.

We welcome the establishment of the Resilience and Sustainability Trust (RST), and we are in discussions with our authorities on the possibilities of accessing this new instrument. However, the amount the ECCU states can access under the RST is not adequate to meet the cost of building resilience. The RST's success is being able to catalyze larger climate funds, and we encourage the Fund to assist in that regard, especially to gain access to climate funds that already exist.

Lastly, our authorities remain committed to achieving the regional debt-to-GDP target of 60 percent by the revised date of 2035. They take seriously the Fund's advice to provide targeted assistance to the vulnerable, to make the adjustments within the budget, and to implement policies that support fiscal and debt sustainability.

However, with the continuous successive shocks, they find it increasingly difficult to achieve the desired objectives. Inflationary pressures are hitting the heart of the government's fiscal position as they try to cushion the effects on the vulnerable with an uncertain timeline for the pandemic and an uncertain timeline for Russia's invasion of Ukraine. It will be increasingly difficult for these countries to provide even limited support to their citizens if prices continue to rise for an extended period of time.

In that regard, we encourage staff to continue to provide advice to the authorities that will help them get the appropriate policy actions to balance social, economic, and fiscal imperatives.

The Acting Chair (Ms. Sayeh):

In relation to the IEO report, we had a very good Board discussion. Staff is already working diligently on the MIP and will be engaging with you in the process of coming up with the MIP. On the RST, we do have constraints on the access limits of 150 percent of quota. Some of that is informed by the limited resources the RST has and the need to make sure we do not overcommit it. But the Board will be in a position to review experience under the RST at the first review where issues such as access could be looked at.

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

We are grateful to Directors for their insightful comments and questions. We have responded in writing to all questions raised by Directors in their gray statements. I would like to comment on the importance of rules-based fiscal frameworks and provide an update on the cash.

Some Directors asked about fiscal risks to the outlook. Our baseline projections assume that once the recovery is on a solid footing, most countries—and notably Antigua, Barbuda, Dominica, Grenada, St. Vincent and the Grenadines—will resume fiscal consolidation to reach the ECCU regional debt target of 60 percent of gross domestic product (GDP) by 2035. However, the outlook is subject to large downside risks, primarily from rising food and energy prices, slowing growth in advanced economies, natural disasters, and new COVID-19 outbreaks, which could affect tourism and construction activity, put additional strain on fiscal spending, and delay fiscal adjustments.

In addition, the United States (U.S.) and the European Parliament recommendations to restrict visa-free access to third countries with Citizenship-by-Investment (CBI) programs could lead to losses of fiscal revenues, which have been an important source of revenue for some ECCU countries for building resilience to natural disasters.

If some of these risks materialize and fiscal outcomes continue to deviate from targets for too long, it will undermine market confidence and limit access to regional and official financing. In this context, the need to adopt or reactivate well-designed fiscal responsibility frameworks, including internalizing the impact of natural disasters have become more pressing to signal credible medium-term fiscal plans. This is especially important given the potential increase in public-sector borrowing costs due to elevated debt and tighter global financial conditions.

Given the diverse characteristics and situations among ECCU countries, including valuations in initial levels of debt and vulnerability to shocks, countries should continue to customize their fiscal responsibility frameworks while following the general principles outlined in the ECCU staff report.

Several Directors asked for an update on the Eastern Caribbean Central Bank's (ECCB) central bank digital currency, DCash, as well as an assessment and lessons. DCash, the central bank digital currency of the currency union, has been rolled out to all ECCU countries by now with the last country, Anguilla, joining last month. The DCash pilot program is still ongoing, and the ECCB plans to continue until June 2023, one year after the last country joined the pilot, to allow all member countries at least one year of experience with DCash and the collection of a large enough sample before an assessment can be done.

The DCash experience so far provides some useful lessons for other countries that are considering central bank digital currencies. Central bank digital currencies have the potential to increase economic efficiency and foster financial inclusion, but sufficient efforts and resources are needed to raise public awareness and facilitate communication with end users to boost confidence and uptake. Implementing safeguard measures will help contain the risks that these central bank digital currencies could pose to central banks and the financial system, including those related to financial intermediation, financial integrity, and cyber security.

The DCash experience underscores the need to enhance central banks' operational resilience and business continuity plans, including through incident response planning and ensuring adequacy of skill resources. It also stresses the importance of clear divisions of operational oversight and risk management responsibilities between the central bank and the technology providers, and establishing appropriate product management and governance arrangements.

Moreover, related efforts in exploring business cases and incentives for the private sector will help promote adoption.

Mr. Bevilaqua:

The ECCU countries are a mix of high and upper middle-income countries, yet these small island states are extremely vulnerable to natural disasters, have high public debt levels and are heavily dependent on tourism. The combination of these features presents a unique challenge for these economies in their relationship with the international community, particularly regarding the criteria to access foreign aid, amid lingering scarring from previous natural disasters and the pandemic, and much work needs to be done to build resilience and bolster sustainable growth. Furthermore, the ongoing war in Ukraine and its spillovers, especially with respect to high food and energy prices, has significantly clouded the outlook, bringing additional policy challenges to the ECCU economies. We have issued a comprehensive gray statement and wish to make the following three points for emphasis.

First, steadfast commitment to fiscal consolidation remains crucial for rebuilding buffers while maintaining well-targeted social and investment spending. ECCU countries' fiscal stances are largely driven by their decision to converge to a common debt level. That said, there has been multiple shifting of the goal post to reach the public debt target of 60 percent of GDP, now postponed for 2035. While several of the countries have appropriately adopted fiscal rules, there are still elements of the current fiscal responsibility frameworks that must be improved to reinforce fiscal consolidation efforts. In this regard, we thank staff for the interesting, selected issues paper on fiscal rules and natural disasters and urge the various authorities of the ECCU to consider the recommendations provided by staff to improve the overall fiscal management framework. We also acknowledge the valuable contribution of The Caribbean Regional Technical Assistance Centre (CARTAC) in this and other areas.

Second, while financial sector conditions have remained broadly stable, the heightened uncertainty in global financial markets and increasing

nonperforming loans call for stricter vigilance of financial sector soundness. We take positive note that the loan moratoria have expired as announced and welcome the authorities' willingness to improve coordination on regulation and supervision, particularly for ECCU non-banks, with the proposed new Regional Standards Setting Body. For jurisdictions which are heavily reliant on resources from the citizenship by investment programs, ensuring their anti-money laundering and combating the financing of terrorism (AML/CFT) regulations are in line with international standards remains paramount to avoid disruptions.

That said, replacing such revenue stream in a short period of time is not an easy task in these economies. Therefore, they must be given enough time and technical support to effectively improve governance and integrity of these programs, and here we reiterate our call to the U.S. and the European Union (EU) to continue working closely with the ECCU authorities to resolve this issue and avoid further disruptions.

Finally, as Mr. Jennings, we believe ECCU countries are prime candidates to access the RST. The current exogenous and incremental shocks come at a time when most ECCU countries have very limited fiscal space and must engage in fiscal consolidation, improve revenue mobilization, and boost spending efficiency. Considering the risk of scarring in the context of lingering structural vulnerabilities, engaging in upper credit tranche (UCT)-quality programs with the Fund can provide these governments the support and structure needed to successfully implement strong reforms to restore fiscal and debt sustainability. On top of that, access to the RST will allow countries to obtain affordable long-term financing to bolster their resilience to natural disasters.

In this respect, we hope that the RST's scope is significantly broadened as soon as possible and, as Mr. Jennings suggested, the issue of access limits for small states is reassessed.

Mr. El Qorchi:

We concur with the thrust of the staff appraisal and policy recommendations and would like to offer the following comments.

The ECCU countries, which are heavily dependent on tourism, have been hit hard by the pandemic. The shock of the war in Ukraine has added to the economic fragility and burden on the population. In the short-run, it is important to continue to provide support to vulnerable segments of the population. We recognize that the authorities face difficult policy tradeoffs

and welcome their commitment to fiscal prudence, which will provide some policy space, but donor support will be critical at this stage.

In the absence of a developed social safety net and in the face of growing food insecurity, maintaining generalized subsidies and other relief measures is reasonable but should be temporary. We recommend a rapid shift to better targeting of social assistance and extending its coverage to the low-income middle class.

Over the medium term, we support staff's call for well-designed and country-specific fiscal responsibility. We emphasize the importance of structural reforms and priority spending to limit scarring, build economic and climate resilience, and ensure food and nutrition security.

Finally, the ECCU is one of the most vulnerable regions in the world to natural disasters and climate change. Therefore, we encourage the authorities to intensify their efforts to build resilience and develop adaptation plans. Mobilization of additional resources will be critical, particularly to enable heavy investment in infrastructure and the transition to renewable energy. Like Mr. Jennings and Mr. Bevilaqua, we believe the RST will be instrumental to help address climate issues and catalyze access to Fund climate funds.

Like Mr. Jennings, we also reiterate the importance of evenhandedness in dealing with Fund country members, particularly the small ones.

Mr. Trott:

The United Kingdom (UK) issued a gray statement and I do not plan to elaborate on that today, but I did want to say a few words about the U.K. overseas territories, which are in the currency union, Anguilla and Monserrat. Both were hit hard by the pandemic. Anguilla is tourist dependent. Its GDP collapsed by about 30 percent in 2020, making revenues collapse just as appropriate spending on public health and support for the most vulnerable increased, and the U.K. stepped in with \$17 million worth of grant funding.

Monserrat is less tourist-dependent but was coming from a vulnerable starting position after 20 years of volcanic activity, and the U.K. was already contributing about 60 percent of their budget funding beforehand, and that increased as well.

Both of these territories responded in an appropriate way with public health measures, including lockdowns. The U.K. provided enough vaccines in both territories for the entire adult population, although it is true to say that take-up of those could be greater, particularly in Montserrat. The recovery is underway under the cloud of Russia's invasion of Ukraine, which has contributed to shocks, including to import prices. As the dollar is strengthened through flight-to-safety flows, that has affected the competitiveness of the region, and these territories are particularly exposed to climate change risk as well.

All that being said, both are doing about as well as might be expected during their recovery. Tourist revenues rebounded in Anguilla, and fiscal reforms in combination with that have allowed them to come off of U.K. grant funding. The U.K. has been working with regional bodies to help bolster the region's medium-term fiscal framework, including a new goods and services tax that came in earlier this month. Montserrat has also done about as one might have expected given its past shocks.

I will end by saying the U.K. will continue to work with the authorities in these territories and regional authorities to support the recovery in these territories, and that will benefit a lot from Fund advice as well.

Mr. Massourakis:

We have issued a gray statement, so I will limit my remarks to just a few issues.

Being one of the most vulnerable regions to natural disasters with sizable GDP effects arising from climate shocks, climate change is macrocritical for the ECCU. Like Mr. Hilbers, we welcome the integration of climate change risks in staff's advice. As reliance on tourism and agriculture exacerbate the effect of natural disasters, we believe that building resilience to natural disasters will continue to be a priority for the region. At the same time, the authorities should speed up their efforts to accelerate the shift to renewables.

With regard to the central bank digital currency project launched by the ECCB, we note that DCash has the potential to foster financial inclusion and increase economic efficiency. But like Ms. Kashima and Mr. Peter, we believe further efforts are needed to strike an appropriate balance between reaping the benefits while reducing potential risks.

Let me conclude by saying that we concur with Mr. Ronicle on the need to address the scarring effects of COVID-19 on human capital, also through appropriate investments in education, as the ECCU countries suffered prolonged nationwide school closures between March 2020 and October 2021.

Mr. Roman:

We published a comprehensive gray statement, so I will emphasize a few points.

First, we acknowledge the tradeoffs are difficult for ECCU countries that have severely been hit by various shocks. Protecting the most vulnerable and fiscal prudence are critical, and we encourage the authorities to make further efforts to gain more efficiency in the generalized subsidy schemes. Like everywhere, there is room for more targeting.

More action regarding domestic resource mobilization and tax progressivity is preferable sooner than later to answer to the social and investment needs and reduce inequalities.

Second, like many speakers, let me emphasize that UCT programs are a critical tool to help countries overcome structural challenges, and they are also necessary to get access to the RST. It would be useful to see more interest from ECCU countries in UCT arrangements, and we encourage management, staff, and the authorities to have a very close dialogue on this topic to tackle the arrangements. I am sure the recent trip by the Managing Director and Mr. Jennings to Barbados will help countries in the region to be more aware of the support they can get from our institution.

Third, on financial integrity, the recommendations by the U.S. and European Parliament last March to support abolishment of CBI schemes are an important signal to highlight criticality of maintaining financial integrity and to avoid illicit activities and reputational risk.

I welcome that the ECCU authorities want to work with international partners to address concerns related to these schemes. Addressing the remaining gaps is urgent, in particular in AML/CFT, governance, and offshore taxation systems. Ensuring consistency with global taxation standards is also paramount. I hear staff saying that money from CBI schemes was an important source of revenue for building resilience to natural disasters, but it is quite clear that these fiscal revenues will decline, so countries should be prepared. In any case, they have always been quite volatile, so it is maybe not

the best kind of resource to build a solid fiscal ground and build resilience against natural disasters, which leads me to my last point, which is the importance to continue to explore the tools to build this resilience.

In this area, we welcome the authorities' commitment, with significant action from the ECCB. We encourage the authorities to implement their disaster risk strategy and accelerate the transition to more renewable energy, which also will help with energy supply and energy security. Further work on insurance instruments, and so under greater use of [European clause] could also be useful.

Mr. Mochtar:

We issued a joint gray statement with Ms. Grant, so today we would just like to add one more point for emphasis.

We would like to echo Mr. Massourakis and Mr. Buissé in their gray statements, highlighting the difficult tradeoffs that the ECCU authorities face due to their limited fiscal space, particularly to balance fiscal consolidation with implementing the ambitious structural reform plan. The challenge on the trade-off could be aggravated if downside risks materialize and may further delay much-needed structural reforms and amplify the scarring effects.

This challenge emphasizes the urgency of instilling fiscal discipline, alleviating fiscal costs, rebuilding fiscal space, and enhancing of public investment management. In this regard, like Mr. El Qorchi, we would advise staff to continue working closely with the authorities and provide tailored policy advice to address the challenges. We also encourage staff to conduct a deeper, more structural discussion of such policy tradeoffs in the next consultation.

Mr. Ekeocha:

We issued a gray statement, and I wish to highlight a few points.

First, while we acknowledge that the ECCU's recovery is threatened by the war in Ukraine, which has compounded existing supply-chain disruptions and heightened inflation, we believe that rebuilding fiscal buffers and sustaining social and investment spending requires a robust fiscal consolidation, and we urge the ECCU authorities to increase domestic income through improvement in revenue administration.

Enhancing spending effectiveness and relying on low-cost borrowing will ensure debt sustainability. We also encourage the ECCU to limit its debt ceiling and operational goal tax while internalizing the effects of natural disasters.

Second, the mounting nonperforming loans are a social concern for the financial sector, so we urge the ECCU authorities to improve risk control procedures, even for non-bank financial institutions.

To address systemic concerns, we implore the ECCU to fix the disjointed non-bank supervision architecture. We support enhancing risk-based insurance supervision and risk mitigation standards. Combining oversight of huge cross-border financial conglomerates and bridging significant data gaps will urge the ECCU to approve and implement the virtual asset business legislation to control digitalized financial services, such as cryptocurrency.

Third, considering the increased scrutiny of the region's CBI initiatives, it is essential to return local bank correspondent banking relationships. We also urge the ECCU authorities to improve the region's financial integrity, AML/CFT governance, and offshore digital systems. ECCU members should also collaborate to fulfill the ECCB's role as the bank's AML/CFT supervisory authority, address concerns identified in the Caribbean Financial Action Task Force mutual evaluations, and establish regional monitoring and transparency for the CBI initiatives.

Finally, we urge the Fund to consider engaging with the ECCU and for the ECCU to consider assessing concessional funding through the RST to reduce their susceptibility to external shocks, especially those caused by climate catastrophes. We encourage the ECCU to continue investing in resilient infrastructure and insurance for natural disasters. They should also continue diversifying their energy conservation efforts for private sector competitiveness, inclusive growth, and energy security.

Mr. Guerra:

We issued a comprehensive gray statement, so let me just make two points related to the DCash experience in the region.

We read with interest staff's answers to our questions, and in particular, we believe they are right to point out that the DCash experience in

the region provides some useful lessons for other countries that are considering central bank digital currencies. In particular, let me highlight five.

First, sufficient efforts and resources are needed to raise public awareness and facilitate the communication with end users to boost confidence in the digital currency.

Second, when there is an outage experience, the outage highlights the need to enhance central bank's operational resilience and business continuity plans. This is also an important lesson for other countries.

Third, there has to be a clear division of operational oversight and risk management responsibilities between the central bank and technology providers, something that we are experiencing with countries in our constituency. At the end of the day, what is needed is a clear management and governance framework.

Let me finish just by singling out one important lesson that the region could give to other member countries, especially small and middle-income countries, and that is the cross-border experience.

Many small and middle-income countries have problems with a lack of correspondent banking relationships. We fully agree with staff that enhanced access to domestic financial services could improve access to cross-border payments as well. Digital innovation can help confront the current inefficiency in cross-border payments. This should be done carefully. Unless the digital currencies are structured to become interoperable across the international exchange, for regional and international businesses, they cannot be a substitute for correspondent banking relationships. We note the interest of the ECCB for building interoperability with other central bank digital currencies, but we believe that a step-by-step approach and cautious approach is needed. This includes increasing the efficiency of existing cross-border payment systems, and that should create in turn the basis for a sound and efficient adaptation of digital money—first for cross-border payments in the region and then later on for a general cross-border issue.

Once again, I believe that this DCash experience can serve as a lesson for other small and medium-income countries.

Mr. Just:

Building resilience to shocks is key, structurally, and a very sensational lesson. Incorporating natural disasters into fiscal policy formulation and macro policy advice in a region that is hit by hurricanes makes sense. I imagine that country teams are already factoring natural disasters into their macro policy frameworks and forecasts.

Resilience is also necessary under the fixed exchange rate regime as it puts the adjustment onus on fiscal structural labor. We call on the authorities to carefully calibrate fiscal transfers and put particular subsidies within limited space and take tiny steps to underpin the sustainability of public finance by also phasing out subsidies. Taking more advantage of regional integration and risk sharing is something that is sorely needed.

On climate change, we note enthusiasm of others for the RST, which at this stage is untested and under-resourced. For us to be stronger advocates of the RST, we would need to see the conditionality guidelines that are being developed. Integrating RST conditionality into a normal program context is probably not without challenges, and we would appreciate if staff and management could give us a sense when the Board will get to see and possibly even discuss it.

As desirable as the RST is, it is a drop in the financing bucket. In case staff is working on a climate finance paper, we would see a strong case for Board discussion thereof, as it may require some shift in our policy advice to help countries have green and blue finance.

On DCash, it is actually not all that bad that the currency union project has fallen short of expectations, and we urge the authorities not to draw the wrong lessons, to push it at all costs. Rather, the important lessons, as also Mr. Guerra has pointed out, is the need for a robust regulatory framework, paying more attention to operational resilience and external communication, and consumer protection and data protection. The population needs to trust it, and business also needs to trust it to make the necessary investment.

We see also a strong need for addressing the AML/CFT gaps, which may also hold back the economic interest in it.

Ms. Grant:

We issued a comprehensive gray statement with Mr. Mochtar, so I simply would like to pick up on some of Mr. Jennings's opening comments and some of the comments by other Directors.

The first is to join with Mr. Jennings in reiterating the importance of the IEO evaluation on small states and the MIP, and I note the comments that the Acting Chair has already made in this regard.

We also support the comments by Mr. Jennings on the macrocriticality of climate change for small island states and highlight the important role of the Fund in helping catalyze climate financing.

The Fund is in a position to catalyze finance for adaptation by helping members build strong institutions and public financial management systems to meet the requirements of multilateral funds. It is also important that the RST fulfills its role as another important catalyst, as other Directors have noted.

Like Mr. Roman, we encourage a close dialogue between the Fund and the authorities on possible access to UCT programs and the RST.

Let me also briefly touch on the risks to correspondent banking relationships. This is an important and complex policy space. We urge the Fund to continue to play a critical role in assisting members with policy advice in this space and in helping facilitate coordination with other agencies, as was also mentioned by Mr. Bevilaqua.

Mr. Peter:

In addition to the joint gray statement that we have issued, I would like to offer two additional points for emphasis. Like in most countries these days, we note the significant increase in headline inflation across the region. We agree with staff that the authorities should avoid an expansionary fiscal-based policy response to this high inflation, as fiscal measures risk threatening the monetary tightening efforts and would also additionally burden the country's already limited fiscal space.

At the same time, we note that the inflation dynamics are also different among the ECCU members. We believe that the coordinated policy response to inflation would therefore be very helpful. In particular, we believe that the greater regional trade and transportation cooperation could ease inflationary

pressures on food, boost productivity and economic growth, and also help build resilience to external shocks.

I want to fully associate myself to the points made by Mr. Roman on the importance for ECCU countries to take advantage of UCT-quality programs and to further improve financial integrity.

Mr. Mozhin:

We have issued our written statement, and I do not have much to add to it. It is very clear that the region is struggling, that the circumstances are very difficult—the combination of the pandemic and high food and energy prices and climate-change-related challenges. This is a deadly combination of circumstances. It is also very clear what is the role of the international community. The RST or any other ways and means to provide support to this region is absolutely necessary.

I would want to raise one other option, perhaps, which has not been sufficiently discussed, and this is the old-fashioned remedy of currency devaluation.

I know this is a rather unpopular idea in the region. I recollect how the Fund was discussing this with the authorities in Barbados. There is a peg in Barbados of Barbadian dollars to the U.S. dollar, and this peg has been standing there since the beginning of history. There is another peg in the ECCU region. I would see this currency as overvalued. Why not help the tourist industry by making tourism quite a bit cheaper in order to be able to compete and attract more tourists? I know the negative consequences of devaluation. One of the big ones is that debt-to-GDP levels will increase, but at the moment, they are just artificially low. Debt levels in some of the ECCU countries will need to be dealt with anyway.

I would want to hear a response on why the old-fashioned remedy such as devaluation is not sufficiently considered.

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

Thank you for the additional suggestions and guidance from Directors. We take note of Mr. Mochtar's suggestion on elaborating further on the trade-off between fiscal consolidation given limited fiscal space and ambitious structural reforms for the next consultation.

On Mr. Mozhin's question, thank you for flagging this issue on devaluation at this Board meeting. As in previous discussions on the common policies of member countries of the ECCU and again this year, we have focused on policy consistency. That is it—the necessary macro policy adjustments needed to support the given exchange rate framework and the structural policies needed to ensure external stability. This is in line with the guidance note for bilateral surveillance. The authorities do not consider changing the exchange rate to be a current policy option.

On your specific question, for the 2021 ECCU consultation, we did some analytical work on currency and market crises that showed that maintaining the robust level of the banking ratio was critical to safeguard the Currency Board, as it has done. But also, staff analysis found that smaller tourism economies, such as the ECCU countries, benefit less from exchange rate flexibility in the short run, likely due to the dominant currency pricing. This is the prices for tourism assets are all in U.S. dollars, but external competitiveness challenges may arise over the medium term.

Mr. Jennings:

I will make three quick points.

The first is to convey my appreciation for the comments in the gray statements and the discussion today. The authorities do value the advice and perspectives that are offered by staff and by the Board. I will make sure to convey those.

Second, on the RST, as many Directors mentioned, and I view this as well, it is an ideal instrument for dealing with the challenges that these countries do face, and I do think sustained efforts of engagement with the authorities by the Fund is a step in the right direction to overcome what may be a long journey to have an adoption of programs like the RST that will have an underpinned UCT program behind it. I welcome the trip by the Managing Director to Barbados, which is a step in that direction, as well as the teams that are constantly engaging with the authorities on that.

Lastly, I thank Ms. Munoz and larger the Western Hemisphere Department team for pulling off a second successful policy discussion on the ECCU when they had to do it virtually. It is a multicountry virtual mission, and I want to recognize that.

The staff representative from the Strategy, Policy, and Review Department (Ms. Tamirisa):

We are planning to update the Board in September about the operationalization of the RST. The goal at present is to start implementing pilots by the end of this year. This is subject to our ability to raise sufficient resources for the trust. These pilots are expected to provide some useful initial experience, and we can draw on this experience and adapt as necessary.

The Acting Chair (Ms. Sayeh):

Let me close by thanking Directors for a good discussion, thanking the ECCU authorities, and thanking staff for their efforts, agility, and diligent work that led to another smooth and effective Article IV consultation this year. Given the heightened global uncertainties, the road ahead will be particularly challenging for the ECCU, no doubt about that. Policymakers will have to remain vigilant and act promptly when needed. It goes without saying that the Fund stands ready to continue to provide support through policy advice, capacity development, and as a number of Directors stressed, engaging with country authorities on the value of UCT support and other financial support that may be necessary, including through the RST.

The Acting Chair (Ms. Sayeh) adjourned the discussion.

ANNEX

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

**Statement by Mr. Jennings, Mr. O'Brolchain, and Ms. Edwards on Eastern Caribbean
Currency Union
Executive Board Meeting 22/71
July 27, 2022**

Our Eastern Caribbean Currency Union (ECCU) authorities welcome the Staff Report and other related documents for the 2022 Common Policies Discussion. The report broadly reflects developments in the Currency Union within the context of the ongoing COVID-19 pandemic and the impact of Russia's invasion of Ukraine and acknowledges the efforts being pursued to address the current challenges. Our authorities appreciate their ongoing engagement with Fund staff and the open and frank dialogue and broadly concur with staff's analyses and recommendations.

Recent Economic Developments, Outlook, and Risks

ECCU economies continue to feel the effects of the lingering COVID-19 pandemic and the impacts of Russia's invasion of Ukraine. Gross Domestic Product (GDP) for the ECCU is estimated to have expanded by 5 percent in 2021, following a sharp contraction of 17½ percent in 2020. Economic activity has been largely uneven across the currency union with robust rebound in the tourism sector in some tourism-dependent countries, but activity remains low in others. Likewise, construction activity in some countries has led to economic growth but high prices supply chain and shipping issues are muting activities in the construction sector in some economies. Early indications are that the ECCU economies could grow by 7½ percent in 2022 and converging to around 2¼ percent over the medium term. Inflation is expected to peak in 2022 to above 5½ percent, reaching as high as 7 percent in some countries from 1½ percent in 2021. These price increases are driven by rising food, fuel, and transportation prices.

The current account deficit, estimated at 16¾ percent of GDP in 2021, remains high as stronger imports more than offset tourism receipts. International reserves remain stable and the currency backing ratio stood at 95.4 percent as at end-February 2022.

Inflation poses a major risk to the outlook. Our authorities are grappling with an inflationary shock whose duration is uncertain and which is posing a fiscal challenge and threatens to undermine growth prospects and social outcomes.

Fiscal Policy and Debt Management

The fiscal situation of ECCU member countries has deteriorated, and fiscal deficits remain high. Revenues declined with the implementation of measures to mitigate the impact of the pandemic while expenditure increased as authorities increased spending on health services and introduced measures to sustain employment, protect the vulnerable, and cushion the impact of rising food and fuel prices. Debt levels have increased as countries borrowed to meet the additional costs associated with the pandemic and to support the public investment program. Overall public debt in 2021 is estimated at around 85 percent of GDP.

Our authorities remain committed to achieving the 60 percent debt to GDP ratio by the target date of 2035. They recognize that stronger fiscal consolidation efforts are required and towards that end, countries have started the process of enhancing their fiscal framework including the establishment of fiscal rules. We take note of Annex VI on “*Lessons for the ECCU and Its Members from Countries’ Experience with Fiscal Rules*” and the Selected Issues Paper section on *Fiscal Rules in Disaster-prone Countries: Implications for the ECCU*” and appreciate staff’s guidance on how the work being done in the ECCU can be further improved.

Strengthening public financial management remains a vital activity. Our authorities see the measures adopted to address the pandemic and the impact of Russia’s invasion of Ukraine as necessary at this time. It is not expected that measures will be unwound prematurely, but as the recovery takes hold, they acknowledge the necessity to gradually reset the parameters in pursuit of fiscal and debt sustainability. That said, they are also mindful of the several downside risks that could impact their ability to increase domestic revenues. Authorities are particularly concerned with the risks associated with the Citizenship by Investment (CBI) Programs. They have taken steps to strengthen the governance in the operation of these programs and are willing to collaborate with European and U.S. counterparts to settle any concerns that they may have about the integrity of their CBI programs. Steps are also being taken to improve the efficiency in the delivery of government services to reduce discretionary expenditure in order to have the fiscal space to provide support to the vulnerable, to continue to address the health concerns and to accelerate the implementation of the capital program.

Access to concessional financing for building resilience is key. A substantial part of the debt of the ECCU countries was contracted to respond to the impact of climatic events and our authorities know firsthand the imperative of building resilience. They welcome the establishment of the Resilience and Sustainability Trust (RST) which acknowledges the vulnerability of Small Developing States (SDSs) to external shocks but remain concerned that relatively high debt levels in ECCU countries may preclude them from gaining access to the RST. Our authorities also anticipate that the RST will serve as a catalyst to access other climate funds which have so far been left largely untapped because of the complexity of the application process. The assistance of the Fund is crucial on this matter.

Financial and Monetary Sector Developments

Financial sector conditions have remained broadly stable, but efforts will continue to ensure financial stability in both the bank and non-bank sectors. The level of non-performing loans remains high and requires special attention from the Eastern Caribbean Central Bank (ECCB) as the regulator and supervisor of the banking sector as well as from the regulators of the non-bank sector. As at end March 2022, moratoria on loans granted at the start of the pandemic have been unwound and we take note that this may have the effect of increasing NPLs in the near term. Therefore, asset quality and provisioning for bad assets will remain in the spotlight in keeping with the ECCB’s new provisioning guidelines.

Our authorities accept that the financial sector can benefit from improved coordination on regulation and supervision. The proposed new Regional Standards Setting Body (RSSB) is intended to help the ECCU non-banks operate under a common regulatory rulebook and improve the quality of regulation and supervision.

In keeping with the efforts to build resilience, our authorities support initiatives for strengthening supervision, reporting and regulatory frameworks against climate change risks. The ECCB is fully committed to undertake these initiatives and has launched an ambitious program to integrate climate risks in supervisory and regulatory frameworks including the implementation of a technical assistance project to build capacity in ECCU regulators and financial institutions. We also take note of the results of the assessment in Annex VIII on “*Natural Disaster Impact on the ECCU Banking System Asset Quality*” as it gives further guidance on addressing climate risks in the banking sector.

Maintaining a strong currency continues to be 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. The fixed exchange rate policy has served the region well and given confidence to potential investors. Foreign reserves remain high and no change in the exchange rate is anticipated.

In support of strengthening governance in the financial sector, our authorities will continue implementing reforms targeted at improving the AML/CFT framework and to pursue initiatives to prevent further loss of correspondent banking relationships (CBRs) by adopting global regulatory standards. **The loss of CBRs remains a concern for the region as it poses a risk to financial stability and every effort is being made to minimize the materialization of these risks.**

Looking ahead, the implementation of measures to increase credit will be pursued. Under the guidance of the ECCB and the approval of the Monetary Council, country authorities are committed to passing the necessary legislation including those related to the establishment of the credit bureau, foreclosure, and solvency. In addition, they have participated in the Eastern Caribbean Partial Credit Guarantee Corporation that aims to address collateral constraints to access credit by micro, small and medium-sized enterprises (MSME) and to provide capacity development. The introduction of D-Cash (central bank digital currency) with the appropriate safeguards offers a new opportunity to increase economic efficiency and foster financial inclusion. The ECCB will intensify its public education on this payment instrument to increase participation by ECCU citizens. The formalization of crisis management plans remains work in progress and on completion will provide a framework for financial institutions to respond to unanticipated events.

Achieving Sustained and Inclusive Growth

Economic recovery post pandemic and within the context of Russia’s invasion in Ukraine will be challenging for the ECCU. To boost tourism arrivals, and within the context of an improving health environment, our authorities have removed several of the

COVID-19 mandates. To date, arrivals have increased but are still well below the pre-pandemic period and with an uneven distribution among various ECCU member countries. Inter-regional travel is important to boosting tourist arrivals in the ECCU, but the gap created by the diminished service offered by the regional airline LIAT has not been fully addressed and poses a major challenge that requires concerted and urgent action to improve regional transportation. Additionally, our authorities continue to make investments in other sectors such as agriculture, physical infrastructure, renewable energy, and digitalization. However, supply chain and transportation constraints could thwart the timeliness and success of these interventions.

Addressing climate change remains a priority for the region. Our authorities have adopted comprehensive adaptation programs which are being implemented through the public sector investment program with a focus on building resilient housing and climate proofing public infrastructure such as schools, health facilities and roads. At the same time, they expect to accomplish the commitments given on the nationally determined contributions. Our authorities continue to advocate for concessional financing and grants to finance resilience building and for debt accumulated to address response to climatic events to be treated differently.

Regaining losses of human capital is vital. The ECCU Region will require a good quality labor force to support the recovery process. Investments in education will be needed to address the fallout from extensive school closures during the height of the pandemic and to provide remedial opportunities to those that may have been left behind due to constraints related to online learning. Retooling of displaced workers and investment in skills development and broadband technology is also part of the strategy being adopted. Support to the health sector will also continue, to minimize future impacts of COVID-19 including the emergence of new variants and to increase vaccination coverage. In pursuing these reforms, our authorities will ensure gender equity and that there are benefits for the youth.

Advancing structural reforms to enhance competitiveness and resilience is essential. To address the increasing cost of food and fuel, greater investments will be undertaken. In regard to food, the ECCU member states are part of an initiative to increase food production in the wider Caribbean and to reduce imports from outside of the Region. Regarding fuel, our authorities are seeking to accelerate their plans to transition to greater use of renewable energy and are focused on increasing investments in wind, solar and geothermal energy systems. These actions will not only address the current inflationary concerns but will take the ECCU closer to the goals they have set themselves with respect to addressing climate change.

Capacity Development

Capacity development is required to support the implementation of the ECCU recovery plans. Technical support is required at both the country and institutional level and our authorities are open to varying modalities for delivery of technical assistance. 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. Considering the critical expanding policy agenda, such as climate change, digitalization and data analytics, the replenishment of CARTAC is important for supporting the member countries with their policy reforms. We look forward to the continued strong support of CARTAC's work in the Region.

Conclusion

Our authorities express appreciation to the Fund and in particular the staff of the Western Hemisphere Department for their tireless support and advice.

Significant challenges and downside risks threaten the success of the development plans for the ECCU region, but our authorities are not daunted by the tasks that lie ahead. They will continue to address the immediate imperative of high food and fuel prices and to protect the vulnerable from these impacts but will not lose sight of the long-term goals of addressing climate change, pursuing fiscal and debt sustainability, and the attainment of inclusive and sustainable growth. The pursuit of a development agenda under the umbrella of regional integration will no doubt be more effective and the ECCU member countries have demonstrated their ability to work together.

Our authorities also remain committed to enhancing the quality of National Statistics to ensure accurate reporting that will form the basis for quality advice.

Our authorities anticipate the continued support of the international community, including the Fund, in the pursuit of their development goals.

**Statement by Mr. Bevilaqua, Mr. Fuentes, and Ms. Mahabir on Eastern Caribbean
Currency Union
Executive Board Meeting 22/71
July 27, 2022**

We thank staff for the report and Mr. Jennings, Mr. O'Brolchain, and Ms. Edwards for the helpful BUFF statement. As a tourism-dependent region, the various islands that comprise the Eastern Caribbean Currency Union (ECCU) were negatively impacted by the pandemic, mainly through travel restrictions, sharp reduction in fiscal revenues and high unemployment. As the recovery gains momentum across countries, the ongoing war in Ukraine and its global spillovers, especially in terms of higher food and energy prices, represent a significant downside risk to these economies.

Inflation headlines risks to the outlook. Given the ECCU economies' reliance on imported goods, they are very exposed to volatility in international prices, especially to changes in shipping costs. In particular, food, housing, and transportation tend to be more sensitive to global shocks than other components of the consumption basket. Therefore, an escalation of sanctions arising from the war in Ukraine could exacerbate supply disruptions and result in even higher inflationary pressures that could disrupt the recovery and impact terms of trade negatively. Therefore, further policy actions may be needed to mitigate the impact of rising living costs on the population. In any case, the scope of any temporary measure or targeted transfer must be carefully calibrated within the available fiscal space to preserve fiscal prudence and debt sustainability.

After supporting their populations during the pandemic, the ECCU economies are now left with limited fiscal space and rising debt levels. The overall debt-to-GDP ratio reached 85.2 percent in 2021 and the fiscal deficit for year-end 2022 is projected to be higher than in the previous year. Against this background, we encourage the authorities to consider staff's recommendation to implement rules-based frameworks anchored on fiscal rules that consider country characteristics such as exposure to natural disasters, initial level of debt, and the degree of openness. In this regard, we thank staff for the Selected Issues Paper on fiscal rules that examines the union's experience with fiscal responsibility frameworks and the ways they could be enhanced to account for the presence of natural disasters. We take note of the need to complement the operation of these frameworks with independent institutions, strong PFM and high-quality data.

Despite the recent rebound in tourism in many of the ECCU economies, further policy and reform efforts are needed to boost medium-term growth. Given the significant loss in human capital during the pandemic, we concur with staff on the need to invest in re-training the labor force and implement active labor market policies to facilitate reallocation.

Further improvements in public sector investment management and elevating countries' capacity to create fiscal space for productive investment and resilience building will be critical to foster a more resilient economy. Particularly, the development and investment in a more efficient transportation system is paramount to bolster the tourism sector. LIAT, who served as the main airline for inter-regional transport, has needed significant financial assistance from the countries over the years. We take note of the plans to restructure the company and encourage the various authorities/national shareholders to develop a comprehensive plan to strengthen its financial capacity and make it self-sustained.

Continued improvement in financial sector regulation is needed as new challenges arise.

Closer monitoring is warranted to ensure AML/CFT regulations, offshore taxation frameworks, and other financial regulations are up to international standards. Furthermore, the region has already lost some of its correspondent banking relationships (CBRs) and staff notes the remaining CBR arrangements could also be in jeopardy due to the increased international scrutiny of citizenship by investment (CBI) programs, risking a significant source of revenue for several ECCU countries. Here, we commend the authorities' willingness to collaborate with their European and US counterparts to strengthen the governance of these programs, as expressed by Mr. Jennings, Mr. O'Brolchain, and Ms. Edwards in their BUFF statement. In any case, replacing such revenue stream in a short period of time will be very difficult for these economies. Therefore, we encourage the US and the EU to continue to collaborate and work closely with the ECCU authorities to avoid further disruptions to these economies.

Finally, the Eastern Caribbean Central Bank (ECCB) continues to support the union's digital transformation and financial connectivity. We take note of the digital payment platform pilot program (DCash) rolled out to all ECCU countries since March 2021 to enable in-country and cross-border digital transactions. Unfortunately, we also take note that the uptake has been slow. *Could staff expand on the causes behind the limited progress? Are there any lessons to be learned thus far for other small open economies considering CBDCs?* Furthermore, we encourage the authorities to continue strengthening the financial sectors' digital infrastructure against cyber-attacks to safeguard financial stability and avoid disruptions in socio-economic activities.

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

**Statement by Mr. Andrianarivelo, Mr. Sylla, and Mrs. Boukpepsi on Eastern Caribbean
Currency Union
Executive Board Meeting 22/71
July 27, 2022**

We thank staff for an informative set of papers and Mr. Jennings, Mr. O'Brolchain, and Ms. Edwards for the helpful Buff Statement.

The economies in the Eastern Caribbean Currency Union (ECCU) were still recovering from the Covid-19 pandemic and its fallout on tourism when Russia's invasion in Ukraine struck. The pandemic has left scars in the region that are being compounded by shocks from the war and related sanctions, including, supply disruptions as well as transportation bottlenecks within the region. Headline inflation caused by the surge in food and energy prices rose across the region, fiscal and external vulnerabilities increased, and food and energy security are being threatened. The macroeconomic outlook is subject to significantly high downside risks stemming notably from higher inflationary pressures from higher commodity prices, tighter global financial conditions or new Covid-19 variants that would impact the recovery notably in the tourism sector. *On the latter, we note from the report that vaccine hesitancy is high in the region and would like ask staff to elaborate further on the vaccine rollout in ECCU countries.* Additionally, potential lower Citizenship by Investment (CBI) revenues from the EU and US, loss of correspondent banking relationships (CBRs), cyber-attacks, frequent natural disasters also remain source of major concerns. As we broadly concur with staff appraisal and policy recommendations, we offer the following comments for emphasis.

In light of increased vulnerabilities caused by the accumulation of shocks, the authorities should continue to protect the most vulnerable and limit permanent scarring. Given the effects of high food and energy prices, the still prevalent pandemic, higher health-related outlays, time-bounded and well-targeted transfers and enhanced social safety nets are of paramount importance. We therefore share the view that prudent fiscal stance is warranted in the near-term Continuing to temporarily rely on generalized subsidies including fuel price caps and tax exemptions is appropriate where social safety nets are less developed. At the same time, we agree that accelerated efforts are needed to strengthen social protection and due consideration should be given to the centralization and digitalization of beneficiary information and payment systems. We note from the report that given near term financing constraints, countries with large near-term gross financing needs should seek UCT arrangements with IFIs, including with the IMF to help catalyze donor support, and minimize the reliance on the central bank – ECCB- credit line to safeguard the quasi-currency board. *Could staff give us an update on the status of IMF financial assistance with ECCU countries?* In addition, the new Resilience and Sustainability Trust (RST) would complement UCT programs focusing on helping to build resilience to external shocks while contributing to long-term balance of payments stability. Unfortunately, as underscored in the Buff statement the ECCU economies present high debt levels that would prevent them to tap into the RST.

Further strengthening fiscal policy frameworks is crucial to achieve fiscal consolidation, preserve the credibility of the regional debt anchor and increase the countries resilience to natural disasters. We agree that over the medium-term, fiscal consolidation measures aiming at enhancing domestic revenue mobilization and rationalizing non-essential spending should be resumed in ECCU countries that are highly indebted. We note from the report that some authorities have indicated the challenges of reaching the regional debt target of 60 percent of GDP that was postponed from 2030 to 2035 to support the near-term recovery, given the current heightened environment. We welcome the authorities reiterated commitment to achieve this target in the Buff statement and would like to encourage the ECCU authorities to swiftly proceed with the needed PFM reforms and make inroads towards a well-designed rule-based country-specific fiscal responsibility frameworks (FRFs). We appreciate Box 1 and Annex VI in the report on fiscal rules and urge the authorities to include the impact of natural disasters in the upcoming FRFs. Operational targets taking into account country social and development needs, levels of debt, natural disasters exposure among others would also be important to allow for the crucial climate resilient investment.

While the ECCU financial system has remained broadly stable, tackling vulnerabilities in the sector should be prioritized. The authorities should swiftly address CBRs risks and ensure financial integrity. Meanwhile, we welcome their strategies to mitigate the potential risks stemming from the end of the two-year loan moratoria program that has expired in March 2022. Plans to address the high level of NPLs including through an effective Eastern Caribbean Asset Management Corporation (ECAMC) and to support the assets recovery are needed. We therefore look forward to the 2022 ECCB's review of the Treatment of impaired assets standard. As regard nonbank financial institutions, we particularly welcome the steps taken by the ECCU authorities to further tightening their regulatory oversight, including the new Regional Standards Setting Body (RSSB) and address the potential systemic risks. In addition, steps to monitor increased crypto activities in the region are commendable. *Could staff comment on the central bank digital currency "DCash" since its launch and the safeguards measures in place?*

Accelerating structural reforms is essential to make the economies in the region, more competitive and resilient to natural disasters and climate shocks. Therefore, we take positive note of the progress so far in natural disaster management, investment in resilient infrastructure and insurance. Further strengthening energy security by diversifying away from imported diesel is of importance to improve competitiveness, and boost growth in the ECCU. In this regard, efforts towards enhancing regulatory environment and private sector participation are critical for accelerating the development of alternative energy sources including solar, wind and geothermal energy across countries. Finally, the ECCU being one of the world's most vulnerable regions to natural disasters, we are pleased to note that the authorities recognize the importance of building fiscal and financial sector resilience to climate risks. Fiscal rules in the presence of natural disasters as well as the ECCB efforts such as the new program to integrate climate risks in supervisory and regulatory frameworks would be helpful in that regard.

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

**Statement by Ms. Vumendlini and Mr. Ekeocha on Eastern Caribbean Currency Union
Executive Board Meeting 22/71
July 27, 2022**

We thank staff for the comprehensive report on Common Policies of Member Countries of the Eastern Caribbean Currency Union (ECCU) and Mr. Jennings, Mr. O'Brolchain, and Ms. Edwards for their insightful Buff statement.

We welcome the ECCU's nascent economic recovery following the negative repercussions of the COVID-19 pandemic. Nevertheless, the recovery is threatened by the war in Ukraine, which has compounded existing supply chain disruptions and heightened inflation. At the same time, the outlook is clouded by the ever-present risk of natural disasters, potential rises in commodity prices, and new COVID variants. Accelerating immunization rates remains critical to supporting economic recovery. Implementing well-designed rule-based fiscal frameworks will promote fiscal consolidation, which is necessary to support ECCU's ability to respond to exogenous shocks and the credibility of the regional debt target. We broadly agree with the staff appraisal and main policy recommendations and would like to emphasize a few points.

Robust fiscal consolidation remains crucial for rebuilding fiscal buffers while maintaining well-targeted social and investment spending. In this regard, we implore the authorities to intensify their efforts to raise domestic income through ongoing reforms to the revenue administration system. Rationalizing tax expenditures will help broaden the tax base, improve compliance and reduce leakages from the informal economy, while enhancing spending efficiency and relying on affordable financing will ensure debt sustainability. Furthermore, we implore the ECCU to limit its debt ceiling and operational target paths, while internalizing the impact of natural disasters to enhance effectiveness. Additionally, we urge the governments to consider switching from income assistance and job retention measures through establishing active labor market policies to boost labor productivity, earnings and enhance the market's functionality over the medium term. That said, we believe that strong fiscal institutions should support these fiscal adjustment efforts, and we therefore urge the authorities to improve the public finance management system.

Maintaining financial sector stability remains paramount for inclusive growth. We positively note that financial sector conditions are broadly sound with sufficient capital buffers and stable bank deposits. Nevertheless, we are concerned that the sector may experience significant challenges because of mounting non-performing loans (NPLs). We implore the authorities to strengthen risk control procedures, even for non-bank financial institutions, and ensure that loan loss provisioning accurately reflects balance sheet risks and losses. This will intensify scrutiny of weaker institutions with high NPLs and lagging provisioning compliance. *Considering the lack of lending, have there been efforts to conduct regional private sector credit surveys to gauge the investor demand for credit and supplier appetite to lend? Furthermore, what effects would the upside risks to inflation and the propensity to raise rates have on credit extension – that is, in real terms, how high is the cost of credit and can it lead to a deterrence in credit demand? Staff comments are welcome.*

Furthermore, we encourage the ECCU to fix the fragmented non-bank supervision architecture to handle potential systemic risks. In this regard, we support advancing consolidated supervision of sizeable cross-border financial conglomerates, raise risk-based insurance supervision and risk-mitigation standards, and close sizable data gaps. In view of the surge in unregulated enterprises, we urge the ECCU to immediately pass and implement the Virtual Assets Business legislation to regulate digitalized financial services, including cryptocurrency assets. That said, supporting the recovery needs a fresh focus on reviving private sector credit growth. In this regard, we implore the ECCU to accelerate key reforms, that would facilitate micro, small, and medium enterprises (MSMEs) access to credit, while mounting effective public awareness for the viability of the DCash.

Considering increased scrutiny of the region's Citizen-By-Investment (CBI) initiatives, efforts should be made to uphold local bank, correspondent banking relationships (CBRs). Therefore, we urge the ECCU to address any remaining gaps in the region's financial integrity, AML/CFT, governance, and offshore taxation systems. In addition, ECCU members should cooperate to complete the Eastern Caribbean Central bank's (ECCB's) designation as the banks' AML/CFT supervisory authority, address concerns identified in the national Caribbean financial action task force (CFATF) mutual evaluations and organize regional oversight and transparency of CBI initiative.

Unlocking the ECCU's growth and development potential requires addressing structural constraints. To this end, we applaud the ECCU for investing in resilient infrastructure and insurance for natural disasters. We further encourage the ECCU to continue diversifying its energy conservation efforts, aided by an enabling regulatory environment, to boost the private sector's competitiveness and energy security. At the same time, modernizing the intra-regional transportation network will strengthen regional integration and boost trade, while continuing investment in digital transformation via broadband technology and talent development will promote inclusive growth. We implore the Fund to assist the ECCU to access concessional funding through the Resilience and Sustainability Trust (RST) to address her vulnerability to external shocks, particularly on climate events

**Joint Statement by Ms. Grant, Mr. Mochtar, Mr. Azlan Ariff, and Ms. Karl on Eastern
Caribbean Currency Union
Executive Board Meeting 22/71
July 27, 2022**

We thank staff for the well-written report and Mr. Jennings, Mr. O’Brolchain, and Ms. Edwards for their helpful buff statement. ECCU economies continue to hurt from the fallout from the pandemic, compounded by the recent shocks from the war in Ukraine, higher food and energy prices, and tighter global financial conditions. At the same time, their ability to durably recover from these shocks continues to be challenged by their small size, low economic diversification, new covid outbreaks against low vaccination rates, and exposure to climate-related risks. That said, **we broadly concur with the thrust of staff appraisal as well as its policy recommendations and would like to raise a few points for emphasis.**

We note with concern the highly challenging economic outlook driven mainly by external sector uncertainties. Inflation and exchange rate dynamics weigh on the growth outlook, and staff’s analysis in Annex V on external cost shocks demonstrates how global factors can play a significant role in driving domestic inflation in the ECCU while, in turn, increasing the cost of policy intervention. In addition, ECCU countries’ reliance on tourism exports make them particularly prone to any future worsening in pandemic-related developments, with very few factors to help offset its impact on growth. *We would appreciate if staff could elaborate further on the factors behind their assumption that tourism will fully recover to pre-pandemic levels in 2024.*

All these challenges exert pressure on fiscal policy, underscoring the importance of using available resources prudently and credibly. Considering the weak initial conditions, we commend the authorities’ commitment to achieving the 60 percent debt to GDP ratio by 2035. However, we also note that many authorities underscored the challenges of meeting this target. We strongly encourage the authorities to expedite the adoption of well-designed, rules-based and country-specific fiscal responsibility frameworks (FRF) to impose fiscal discipline, promote debt convergence, and signal credibility. We encourage staff to provide CD support in the design of fiscal rules, particularly assisting with the design of debt and expenditure rules that account for shocks from natural disasters. Fiscal institutional reforms are also crucial and must be prioritized to ensure effective implementation of the FRF. We agree with staff recommendations on near- and medium-term fiscal priorities, as well as the need to build fiscal space through revenue administration reforms, tax expenditure rationalization and enhancing the efficiency of spending.

We encourage stronger monitoring of financial sector risks, support for private sector credit growth and continued efforts to strengthen the AML/CFT framework. We positively note that financial sector conditions have remained broadly stable. Stronger

monitoring of asset quality and enhanced resolution mechanisms are warranted, especially as the already high NPLs could increase further amid the unwinding of loan moratoria. *We would be interested to know which segment or sector poses the most risks to the banking system (as Box 3 mentions that there are limited direct bank exposures to the most vulnerable sectors)?* We note that bank lending remains sluggish despite robust deposit growth. We encourage the authorities to deepen local capital markets, and to reduce lending and credit constraints to promote private sector investment and support the growth of MSMEs. We urge the authorities to also step-up efforts to address AML/CFT gaps to help prevent further loss of correspondent banking relationships, considering recent developments related to the region's CBI.

Finally, we encourage the authorities to take the necessary actions to minimize scarring effects from the pandemic and to pursue structural reforms to ensure sustainable and inclusive growth. The pandemic's adverse impact on human capital is concerning, as highlighted in the selected issues paper, and it could have significant negative long-term consequences. Therefore, we urge the authorities to invest in education and to improve labor mobility. Investment to reduce infrastructure bottlenecks and strengthen climate resilience would also support sustainable and inclusive growth. Careful management and utilization of resources, leveraging public-private partnerships, regional cooperation and concessional sources of financing will also be important given the highly constrained fiscal space. Strengthening the ability to provide more targeted policy support would also be beneficial, including enhancing the infrastructure for social protection systems and its underlying database on households.

With these comments, we wish the ECCU authorities and people all the very best in their economic endeavors.

**Statement by Mr. Massourakis and Ms. Korinthios on Eastern Caribbean Currency
Union
Executive Board Meeting 22/71
July 27, 2022**

We thank staff for an excellent set of reports and Mr. Jennings, Mr. O'Brolchain, and Ms. Edwards for their comprehensive Buff statement. Although on a gradual recovery path, the ECCU economies continue to suffer the fallout from the pandemic, compounded by the recent shocks from the war in Ukraine, that threaten growth prospects and food and energy security. We broadly agree with the thrust of the staff's appraisal and would like to provide the following comments:

- **Although on a gradual recovery path, challenges loom ahead for the ECCU economies.** We note that the pandemic has left scars on key sectors but also on human capital, leaving many ECCU countries with smaller fiscal space. At the same time, the recovery is uneven across ECCU economies, given the different pace of tourism rebound and domestic activity; amid the onset of new variants, we call on the authorities to address vaccine hesitancy. On top of a slow recovery in 2021, the war in Ukraine is exacerbating supply disruptions and fueling inflation, threatening food and energy security.
- **We concur with staff that the near-term policy priority is to maintain fiscal prudence while supporting the most vulnerable.** Policymakers are faced with difficult tradeoffs, given the limited fiscal space; while health spending is still necessary to address the pandemic, social transfers are needed in response to rising living costs. Against this background, food insecurity, with consequent risks of social unrest, may be a cause of concern, as noted in the Risk Assessment Matrix. We broadly agree with staff on the need to provide temporary and targeted transfers to the vulnerable while working to improve coverage and targeting of social safety nets.
- **Over the medium term, fiscal policy should shift toward fostering resilient and inclusive growth.** To this end, fiscal consolidation should be accompanied by domestic revenue mobilization, rationalization of lower-priority spending and progress in the reform agenda. We thank staff for the SIP on fiscal rules in disaster-prone countries; we value staff's suggestion to adopt a well-designed rule-based fiscal responsibility frameworks (FRFs), as we believe it would help create space for building resilience to

natural disasters; we concur that fiscal rules should be simple and well-tailored to countries' specific characteristics.

- **The financial system has overall been stable.** However, as NPLs remain high and could increase further following the expiration of the ECCB's loan moratoria program, continued close monitoring of asset quality and provisioning buffers is warranted. We welcome the authorities' commitment in this regard, as noted in the Buff statement.

**Statement by Mr. Hendrick and Ms. Ramos Capaquira on Eastern Caribbean Currency
Union
Executive Board Meeting 22/71
July 27, 2022**

We thank staff for the comprehensive report and for the interesting Selected Issues Paper addressing the relevant topics of scarring effects of the pandemic and fiscal rules in disaster-prone countries. We also thank Mr. Jennings, Mr. O'Brolchain, and Ms. Edwards for their insightful Buff statement.

1. **After the strong impact of the pandemic, the Eastern Caribbean Currency Union (ECCU) economies showed a significant recovery in 2021.** Following a high contraction of 17.5 percent in 2020, GDP had grown by 5 percent in 2021 mainly driven by a rebound in tourism and support policies. Nevertheless, the current context of geopolitical tensions clouds this performance, with high inflationary pressures, threat to food security, and worse external conditions. This challenging environment demands further actions from the authorities amid a reduced fiscal space and long-standing vulnerabilities.
2. **We welcome the authorities' commitment to fiscal sustainability, and, at the same time, the pursuit of their development goals in the medium and long term.** The progress in establishing fiscal responsibility frameworks (FRFs) in most of the ECCU countries is noteworthy. Nevertheless, we concur with the authorities that implementation or recalibration of this framework should internalize the new fiscal outcomes and their development goals and investments for resilience to natural disasters. Additionally, we agree that mitigating the impact of rising commodity prices on the most vulnerable households is a key priority in the near term. Considering the large reliance of revenues on Citizenship by Investment (CBI) and its role in contributing to economic and social progress and to strengthen resilience to disasters, we take positive note of the authorities' efforts to improve CBI program governance and to address the current threat to these types of revenues by providing assurances on their integrity to E.U. and U.S. counterparts.
3. **The financial system shows positive results; nonetheless, it faces risks associated with high non-performing loans (NPLs) and subdued credit growth.** Close monitoring of the asset quality amid the end of the moratoria program last March is needed, given the high levels of NPLs, at almost 12 percent on average, with some countries with more than 20 percent. We also see merit in the Eastern Caribbean Central Bank (ECCB)'s ongoing progress on upgrading provisioning frameworks, and regulation of non-banking system through the new regional standards setting body (RSSB). Furthermore, we commend the recent launch of the Eastern Caribbean Partial Guarantee Scheme, which will promote financing access for micro, small, and medium-sized enterprises, and other initiatives to promote credit growth, which eventually help boost the economic recovery and diversification.
4. **Regarding the exchange rate and foreign reserves,** it is noteworthy that despite the challenging external context, the currency has been sustained and remained stable with respect to the U.S. dollar, under the ECCB's current quasi-currency board mechanism. We agree with the authorities that a stable exchange rate provides certainty to economic agents.

Moreover, stable levels of international reserves, that account for more than four months of prospective imports of goods and services, contributed to this outcome.

5. **Improving ECCU economies' resilience is crucial, given their high vulnerability to natural disasters and their impact on tourism.** We commend the authorities' emphasis and commitment on enhancing resilience to natural disasters. In this regard, important investments have been made to transit to renewable energies. Given the limited fiscal space, we join the authorities in welcoming the Resilience and Sustainability Trust (RST). However, as stated in the Buff statement, *the authorities are concerned about their high levels of debt which could prevent them from accessing the RST. We would appreciate staff's comments on this issue.* Regional integration is key for addressing ECCU's shortcomings and contributing to build a more sustainable and resilient economy. Therefore, we see merit in the authorities' ongoing work on a regional strategy to reduce food imports and improve food security, within the Caribbean Community (CARICOM)'s development goals.
6. **Acknowledging the risks of Central Bank Digital Currencies (CBDC) and the caution which they should be taken with, the authorities' efforts to generate a safeguard framework for DCash are positive.** We note the authorities' optimism about the use and prospects of DCash, for instance, they are exploring expanding it to e-government operations. In this regard, *we would appreciate knowing if staff or the authorities have an available assessment of DCash, given that the pilot would have ended in some member economies.*

With these comments, we wish the ECCU member countries success in their future endeavors in these challenging times.

**Statement by Mr. Hilbers and Ms. Eijking on Eastern Caribbean Currency Union
Executive Board Meeting 22/71
July 27, 2022**

We thank staff for the well-written report and underlying analysis and Mr. Jennings and Mr. O'Brolchain for their informative Buff statement. We agree with the thrust of staff's appraisal.

ECCU countries suffer from Russia's war against Ukraine. Staff's analysis shows that Russia's war against Ukraine affects the ECCU economies mainly through higher inflation, of a size averaging over 2 percentage points. This is a large share of inflation projected at 5.2% for 2022. ECCU countries were particularly affected by the pandemic, given their strong dependence on tourism, and are now especially hard hit by the spike in energy and food prices caused by Russia's war against Ukraine, due to their reliance on imported food and energy.

We welcome the authorities' agreement on the desirability of a shift towards targeted support. In line with the general Fund advice, we agree that generalized subsidies to energy prices should be phased out for many reasons, among others to help reduce fiscal costs and promote the green transition. We also welcome the Fund's attention to country-specific circumstances in their advice, in this case paying needed attention to relatively underdeveloped social safety nets which are necessary for targeted transfers to the most vulnerable. *Which steps are envisaged to strengthen the coverage of existing social safety nets, and do the authorities consider CD in this area?*

We very much welcome the integration of climate change risks throughout staff's advice, ranging from fiscal and financial sector policies to specific climate transition policies. We thank staff for their advanced analysis on the fiscal responsibility frameworks, taking into account the frequency and impact of natural disasters on public finances. We note the need for accelerating the energy transition by shifting towards renewables, which will also help address energy security risks.

We encourage the authorities to step up fiscal consolidation efforts to mitigate fiscal risks. We note the challenges the authorities report in reaching the 60% GDP debt target by 2035, given the recent large increases in the debt-to-GDP ratio. We also welcome the notion in the Buff statement that the authorities recognize that stronger fiscal consolidation efforts are required, and that countries have started the process of enhancing their fiscal framework, including the establishment of fiscal rules, towards that end. *Could staff elaborate on the public debt trajectory of St. Lucia specifically, given that this is the only country within the ECCU in which the debt level is projected to remain almost stable over the projection horizon, at a level of about 90% GDP? Could staff also elaborate on the most important fiscal risks, in the absence of a debt sustainability analysis?*

We encourage staff to elaborate on financial sector developments and risks. It is not clear to us whether increased competition in the banking sector is related to non-bank financial institutions. We note the concern of the authorities regarding fragmented supervision of non-banks, and that they deem tightened regulatory oversight of nonbank financial institutions as key to addressing potential systemic risks and maintaining system stability. The report also lacks an assessment from staff on the Central Bank Digital Currency, Dcash, while we note the identified cyber risks related to it.

With these comments, we wish the ECCU authorities and people all the very best in their economic endeavors.

**Statement by Mr. Alhosani and Ms. Hamzah on Eastern Caribbean Currency Union
Executive Board Meeting 22/71
July 27, 2022**

We thank staff for the well written report, we also thank Mr. Jennings, Mr. O'Brolchain, and Ms. Edwards for their useful buff statement. We are in broad agreement with staff's policy recommendations and appraisal. Countries within the Eastern Caribbean Currency Union (ECCU) are gradually recovering from the COVID-19 Pandemic which has negatively impacted economic activity and has left scarring on key economic sectors in addition to losses of human capital and straining of fiscal and external balances. The conflict in Ukraine is also imposing new global challenges that include higher inflation and increasing food prices. Against this backdrop, we would like to make the following points:

Global inflationary pressures accompanied by high food prices would impose further challenges that can negatively impact economic activity. As inflation is expected to reach over 5.5 percent in 2022 due to increasing overall global inflationary pressures and economic repercussions from the conflict in Ukraine, the authorities are encouraged to provide temporary and targeted relief measures to mitigate risks and alleviate the impact of rising living costs. Improving the adequacy and efficiency of social safety nets will also be needed to help support vulnerable households. Additionally, we agree with staff that enhancing regional integration by the removal of trade barriers, can ease supply disruptions and facilitate trade to ensuring adequate food security for the region.

Rebuilding sufficient macroeconomic buffers and strengthening fiscal frameworks are key priorities. Fiscal consolidation and maintaining fiscal discipline over the medium term is key to preserving debt sustainability and ensuing resilient and inclusive growth. The adoption of a well-designed- rule-based fiscal responsibility framework (FRF) will also be needed to achieve fiscal consolidation and to preserve the credibility of the regional debt regional target. However, we agree with staff that in order to minimize the impacts of climate risk, setting a lower debt country ceiling than the regional debt ceiling in addition to ensuring that operational targets are tailored to country specific circumstances, will enhance the effectiveness of FRFs. Going forward, we encourage the authorities to ensure that fiscal policy moves from income support and job retention measures to ones which facilitate labor reallocation and training.

Advancing on structural reforms is key to strengthen private sector confidence and enhance the business climate to ensure sustainable and inclusive growth. Digitalization efforts can be a powerful tool to help simplify processes and foster financial inclusion efforts.

We positively take note of the new payment system and services act (PSSA) that is being drafted in addition to the projects currently underway with World Bank support such as the Caribbean Digital Transformation Project and the Blue Economy Project. We also advise the authorities to pay close attention to the cyber risks involved with more advanced payment system technologies to avoid disruptions that may hurt confidence in the financial sector. We therefore agree with staff that appropriate crisis management plans and pursuing a prudent approach to financial innovation will be needed to strengthen financial sector resilience.

Finally, we encourage the authorities to continue to address vaccine hesitancy through continued public education and awareness campaigns.

With these remarks, we wish the people of the Eastern Caribbean Country Union (ECCU) and their authorities all the best in their future endeavors.

**Statement by Ms. Marcussen and Ms. Ekelund on Eastern Caribbean Currency Union
Executive Board Meeting 22/71
July 27, 2022**

We thank staff for the comprehensive report and Mr. Jennings, Mr. O'Brolchain, and Ms. Edwards for their informative Buff statement. While the economic developments differ between countries in the Eastern Caribbean Currency Union (ECCU), we regret that many have been hard hit by the pandemic and are now facing another shock due to global effects from Russia's war in Ukraine. **We broadly concur with staff's appraisal** and offer the following points for emphasis.

Fiscal consolidation efforts are needed to improve public debt sustainability that has substantially deteriorated following the pandemic, and these efforts are now further complicated by higher food and fuel prices. In the short term, national authorities need to ensure economic support to protect the most vulnerable. We concur with staff on the need for a commitment from the authorities to phase out general subsidies such as fuel price caps and tax exemptions in the coming years. Maintaining these subsidies would complicate fiscal consolidations plans to reach the 60 percent of GDP debt target by 2035. We very much agree on the need to adapt well-designed medium-term fiscal frameworks to achieve fiscal sustainability, enhance climate resilience, and preserve the credibility of the regional debt target. We find the Selected Issues Paper on fiscal rules in disaster-prone countries timely and hope that Fund guidance will be helpful, supported by capacity development when appropriate.

We welcome that the loan moratoria were allowed to expire as announced while agreeing on the need for the Eastern Caribbean Central Bank (ECCB) to stay vigilant on non-performing loans. The authorities should consider dividend restrictions to protect banks' capitalization until the effects of the pandemic are fully known. On the broader financial sector agenda, we encourage the authorities to prioritize AML/CFT supervision and adopt regulatory standards to minimize further losses of correspondent banking relationships. We note with interest the information on the DCash and the plans to raise public awareness and reinforce capacity, including to decrease cybersecurity risks. *We wonder if staff could elaborate on the expected timeline and main steps for the pilot project, as well as on their call for a clear exit plan (in case of major issue with any of its vendors)?*

The ECCU countries would benefit from ambitious structural reforms to enhance competitiveness and resilience. We support the authorities' work to develop an action plan

to enhance regional integration and especially welcome efforts to remove trade barriers. We also 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. *We note the authorities welcome of the Resilience and Sustainability Trust (RST) and wonder if staff can elaborate if any interest has been expressed from ECCU countries in obtaining financing from the RST?*

With these remarks, we wish the ECCU authorities all success in their policy endeavors.

**Statement by Mr. Ronicle, Mr. Trott, and Mr. Evangelou on Eastern Caribbean
Currency Union
Executive Board Meeting 22/71
July 27, 2022**

We thank staff for the comprehensive report and Mr. Jennings, Mr. O'Brolchain, and Ms. Edwards for their insightful buff statement. The member countries of the ECCU have faced some of the most serious economic downturns relating to COVID. The negative spill-over effects from the Russian invasion of Ukraine are now putting pressure on their nascent recoveries. We agree with staff that risks remain tilted to the downside – particularly in relation to an elevated inflationary environment, prolonged levels of high debt, and the continued threat of climate change and natural disasters. **We support the completion of the Article IV consultation.**

The potential scarring effects of COVID – particularly on human capital – risks undermining growth over the long term. This is well described in the staff paper and for that reason, we strongly support efforts by the authorities to address this issue, including through additional investments in education. In the immediate term, there is an increased urgency to protect the most vulnerable segments of the population given rising inflation. Looking forward, we support staff recommendations on building more inclusive growth, especially given the risk that rebounds in traditional sectors such as tourism are uneven across member countries over the coming years. We also note the recent issues associated with inter-regional travel and its drag on output.

Debt levels continue to exceed ECCU targets and staff assess that much of the recent reduction in fiscal deficits has been driven by the increase in Citizen-by-Investment (CBI) revenues. We note the possibility that these revenues taper off in the near future, while welcoming the commitment from the authorities to work with international partners on concerns around the integrity of CBI programs. We also welcome staff's analysis of country-specific fiscal responsibility frameworks that might better anchor debt expectations and support the credibility of regional debt targets over the long term.

We note efforts by the ECCU members to mitigate financial market risks, including those emanating from outside of the banking sector, and welcome the aspiration of the ECCB's proposed Regional Standard Setting Body (RSSB) to reduce fragmentation of non-bank financial oversight across the region. *Could staff provide a timeline for the RSSB's implementation?* Staff have also provided a helpful update on developments in the Central Bank Digital Currency space. Digital innovation presents many potential opportunities, though the outage of DCash earlier this year underscores the need for prudence in the pace and scale of rolling out such developments, in order to ensure that operational risks are suitably mitigated. *We would welcome any further insights from staff on how digital financial*

innovation in the private sector might affect access to finance and credit domestically, as well as access and exposures to cross border capital flows?

All ECCU countries face acute risks related to climate change and natural disasters. We agree with the staff assessment that over the longer term continued investment in climate resilience will be key and note Box 3 and Annex VIII of the staff report on the impact on climate risks on ECCU financial resilience with interest. The newly launched ECCB programme to incorporate climate risks in its supervisory and regulatory frameworks is therefore a positive development in this space.

**Statement by Mr. Bai and Ms. Qi on Eastern Caribbean Currency Union
Executive Board Meeting 22/71
July 27, 2022**

We thank the staff for the well-written report as well as Mr. Jennings, Mr. O’Brolchain and Ms. Edwards for their helpful Buff statement. ECCU economies are facing the lingering effects of the pandemic and the spillovers of Ukraine’s conflict. The fiscal stance continues to deteriorate, with overall public debt in 2021 at around 85 percent of GDP. Looking forward, we agree with staff that the authorities should adopt rule-based fiscal frameworks and reinforce financial sector stability, to foster resilient and inclusive recovery. We broadly agree with the staff’s appraisal and would like to offer the following points for emphasis.

Re-anchoring rule-based fiscal frameworks are critical to promoting debt convergence and rebuilding a fiscal buffer. Limited fiscal space and rising public debt levels cause difficulties in trading-off spending priorities. We agree with the staff that time-bound fiscal support is critical for the vulnerable and MSMEs, which are mostly affected by the pandemic and rising energy prices. We commend the authorities’ commitment to achieving 60 percent of the GDP debt target by 2035, and the recent progress of several ECCU countries on adopting rule-based Fiscal Responsibility Frameworks (FRFs) is welcomed. We appreciate the analysis from Box II and Annex VI on fiscal rules for small open economies and encourage the authorities to set up or amend their operational targets based on country-specific circumstances, including the exposure to natural disasters, public debt level as well as development needs. A strong fiscal institution is fundamental to the success of FRFs. To this end, we welcome technical assistance from the Fund to assist the authorities with recalibrating fiscal rules and assessing the tax gap.

Continued efforts are needed to safeguard financial stability against potential vulnerabilities. Thanks to loan moratoria policies, the financial system is relatively stable so far. However, given the elevated NPL pressures following the exit from loan moratoria, intensified monitoring is warranted to ensure provisioning adequately reflects balance sheet risks and losses. In this regard, we welcome the ECCB’s recent provisioning guidance. We note that due to the intensified scrutiny of Citizen-By-Investment programs, the correspondent banking relationships of local banks would be negatively impacted. We encourage the authorities to continue to strengthen financial integrity frameworks and complete the designation of ECCB as banks’ AML/CFT supervisory authority.

Steadfast reforms are crucial to build resilience against natural disasters and climate change, and to increase the region’s competitiveness. We welcome ECCU’s ongoing efforts on resilient infrastructure investment for natural disasters. We also take positive note that the authorities are incorporating climate change risks into their fiscal framework and

financial supervision. We note that as illustrated in the Buff statement, ECCU authorities anticipate the RST to serve as a catalyst to access other climate funds, but the complex application process holds progress in that front. *Can staff elaborate on the updates on the Fund's financial assistance arrangements with the ECCU countries? Can staff provide more details on the intention of ECCU countries to the RST?*

With these remarks, we wish the authorities all the best in these difficult times.

**Statement by Mr. Mozhin and Mr. Tolstikov on Eastern Caribbean Currency Union
Executive Board Meeting 22/71
July 27, 2022**

We thank staff the informative set of reports and Mr. Jennings, Mr. O’Brolchain, and Ms. Edwards for their helpful Buff statement.

The tourism-dependent economies of the Eastern Caribbean Currency Union (ECCU) have been hit hard by the COVID-19 pandemic and associated decline in tourist arrivals. Substantial decline in economic activity in 2020 and sizeable fiscal support provided to the economy have led to a sharp rise in public debt, widening of the current accounts and fiscal deficits. The recovery has begun in 2021, supported by gradual tourism revival, and in 2022 growth of the ECCU economies could exceed 7 percent. However, headwinds from the global inflation and commodities market disruptions can slow down the recovery and lead to higher inflation. The ECCU region is also one of the most vulnerable to natural disasters and the climate change. Therefore, the authorities’ policies should be aimed at safeguarding macroeconomic stability, achieving sustainable and inclusive growth, and ensuring resilience to climate developments and natural disasters. As we broadly concur with staff recommendations in this regard, we will provide only a few comments for emphasis.

On the fiscal front, we welcome the ECCU countries authorities’ commitment to achieve the 60 percent debt to GDP target by 2035. These efforts could be helped by the implementation of fiscal rules, which take into account divergent country-specific characteristics, including initial level of debt, openness of the economy and its exposure to natural disasters. Fiscal institutions reforms are also essential to ensure effective fiscal consolidation. We support staff’s recommendations to gradually phase out generalized subsidies, while improving the adequacy and efficiency of social safety nets.

Expiration of the loan moratoria program may bring to light a deterioration of banks’ asset quality. In this regard, we support recommendations for stronger monitoring of asset quality by the ECCB and national regulators as well as enhanced provisioning. The authorities are also well advised to develop strategies to promote NPL reduction, including by addressing funding constraints of the Eastern Caribbean Asset Management Company, while strengthening national asset recovery frameworks. We encourage the authorities to address the AML/CFT concerns and improve oversight and transparency of their CBI programs.

We take note that the recent introduction of the “DCash” – the ECCU central bank digital currency – was marred with technical problems and its uptake by the public has been slow. The difficulties faced by the project demonstrate the need for careful preparations in

introducing CBDCs. In order to reinvigorate this important program, the ECCB should raise public awareness, while strengthening the program management and staffing. The Fund's work in the digital money area, including its policy recommendations, should take proper account of this experience.

**Statement by Mr. Guerra and Mr. Cartagena Guardado on Eastern Caribbean Currency
Union
Executive Board Meeting 22/71
July 27, 2022**

We thank staff for the comprehensive set of reports and Mr. Jennings, Mr. O'Brolchain, and Ms. Edwards for their insightful Buff statement on the Eastern Caribbean Currency Union (ECCU).

ECCU continues to face important challenges to its gradual recovery. The COVID-19 pandemic left uneven scars among countries in the region and reduced, in an important manner, the already limited policy space. We highlight that accelerating the vaccination rate for COVID-19 should remain as a top priority, especially given the new variants and in the context of a rapid need for recovery in the tourist sector that is still below pre-pandemic levels.

Fiscal prudence efforts will be instrumental going forward. We note that most ECCU countries face higher expenditure pressure given the increased burden of interest payments. While accommodative fiscal policy was instrumental in supporting the recovery from the pandemic, we welcome the efforts that some countries in the region are making to resume fiscal consolidation through mobilizing domestic revenues and rationalizing lower-priority spending. Country authorities should accelerate the adoption or reactivation of fiscal responsibility frameworks to help achieve fiscal consolidation and preserve the credibility of the regional debt target. **In this regard, we support staff's assessment that FRFs should internalize the impact of natural disasters to enhance their effectiveness.**

Authorities should decisively mitigate financial stability risks. We note that the banking system remains sound, supported by good capital positions, high liquidity, and adequate profitability, although with high legacy risks exacerbated during the pandemic. In this regard, closely monitoring the evolution of the credit portfolio and adequately and timely provisioning for loan losses are crucial. We commend the authorities' commitment to ensuring that the non-bank financial system follows the applicable national and regional guidelines. In particular, as stated in the Buff, we welcome the proposed new Regional Standards Setting Body (RSSB) that should support the ECCU non-banks to operate under a common regulatory rulebook and improve the quality of regulation and supervision. As in other regions, inflation is becoming a high priority concern for the authorities in ECCU countries as it has strongly increased, driven by rising food, fuel, and transportation prices. This, in turn, can have important financial stability risks.

We strongly urge the authorities to speed up advances to enhance climate resilience. We note with concern the high prominence of natural disasters in the ECCU, particularly as evidenced in the report by the incidence of natural disasters (1.6 per year between 1980 and 2020) and the large, estimated damage per event. This underscores the urgency to prioritize an action plan for building resilience supported by adequate climate insurance and financing. **The IMF should play a catalytic role with the international community and other IFIs to build climate change resilience in the region.**

The structural reform agenda should advance further. The region should make progress in diversifying economic activity given its high reliance on tourism. We also highlight the importance of building a strong framework for the digital transformation strategy to close gaps in financial inclusion, including by leveraging the regional CBDC. We note the opportunities that this strategy presents for the region, although stronger actions by the Central Bank to mitigate risks and increase financial literacy in this field are needed given the low scale of use of the CBDC. In this regard, we welcome that the authorities will intensify their public education on this payment instrument to increase participation by ECCU citizens.

With these remarks, we wish the authorities success in their policy endeavors during these challenging circumstances.

**Statement by Mr. Just and Mr. Meizer on Eastern Caribbean Currency Union
Executive Board Meeting 22/71
July 27, 2022**

We thank staff for the comprehensive set of reports and Mr. Jennings, Mr. O'Brolchain, and Ms. Edwards for giving further insights into the common challenges and policy priorities of the Eastern Caribbean Currency Union (ECCU). While the member countries still struggle to mitigate the scars of the COVID-19 pandemic, the worsening global economic outlook creates new headwinds in the region. To ensure a more resilient and inclusive recovery, the authorities need to place more focus on embedding fiscal measures in a more credible medium-term framework, giving new impetus to financial sector reforms, and building resilience to external shocks.

After a deep recession, and amid mounting price pressures, well-calibrated policy measures are needed to place the ECCU economies on a stronger footing. Although tourism shows some signs of recovery, the rebound has been uneven even in this strategic industry, while other sectors are also well below their pre-pandemic output levels. Meanwhile, higher import prices pose increasingly difficult challenges for the member countries and further exacerbate the region's external imbalances. Since the ECCU countries are highly exposed to external cost shocks, as outlined in Annex V, the persistence and second-round effects of the higher inflationary environment deserve particularly close attention. Also considering the large uncertainties around the outlook, efforts to reduce the region's external vulnerabilities should be prioritized.

The authorities should develop a more prudent approach to mitigate the rising cost of living and bolster the sustainability of the fiscal frameworks at the same time. Fiscal transfers to reduce adverse effects of the soaring global food and energy prices need to be focused towards the vulnerable groups. Although the buoyant Citizenship-by-Investment (CBI) revenues helped alleviating budget constraints in some countries, underlying fiscal indicators suggest limited room for maneuver, while the integrity concerns around the CBI program also need to be addressed in an urgent manner. With due attention to the structural impediments, we also call on the authorities to put a high premium on strengthening PFM practices and bolstering employment opportunities. Beyond near-term policies, we welcome staff and the authorities' deeper dialogue on how to enhance further the fiscal frameworks of the ECCU countries. The staff paper on the calibration of fiscal rules in disaster-prone countries contains helpful recommendations in that regard. Since interest payments are on a steady rise, access to concessional financing is appreciating. *We learned from the Buff that the authorities have some concerns about their future access to the Fund's Resilience and Sustainability Trust. We wonder how staff evaluate the ECCU authorities' opportunities to tap concessional financing and grants to a greater extent. In view of the significant local investment needs, we would also like to better understand what factors prevent greater investment of domestic resources in the region.*

In the absence of exchange rate flexibility, greater burden is placed on fiscal policies to curb imbalances. *While we understand that the authorities attach high importance to*

maintaining the strength and the stability of the EC dollar, staff's further elaboration on the sustainability of the fixed exchange rate policy would be welcome – also considering the US dollar's recent surge. Relatedly, we positively note that the ECCB's international reserves remained stable even in a challenging period. Since the use of the ECCB's digital currency (D-Cash) remains on a limited scale, while it also faced outages, we are also interested in staff's further view on the potential of this currency to promote financial inclusion, improve ECCU payment systems and address corresponding banking relationship vagaries.

Greater efforts need to be made to deal with risks to financial stability in both the bank and non-bank sectors. The elevated level of NPLs and the remaining pockets of financial vulnerabilities call for close monitoring and more prudent provisioning. In parallel, not losing sight of the fact that the sluggish credit growth has been a prominent feature of the region's financial sector for over a decade, more thorough developments are needed to improve financial inclusion and remove barriers to credit access. To prevent a further loss of correspondent banking relationships, the authorities must urgently take more decisive steps to address remaining shortfalls in the region's AML/CFT and offshore taxation frameworks. Although the establishment of the Regional Standards Setting Body offers a promising platform to bring the ECCU non-banks under a common rulebook, other cross-border financial activities would also require greater scrutiny going forward. We welcome the ECCB's commitment to integrate climate risks in supervisory and regulatory frameworks.

Advancing structural reforms remains key to underpinning development prospects. There is a strong need for improving the level of human development – particularly in view of the substantial losses experienced during the pandemic – as well as catalyzing private sector development and fostering regional cooperation. To achieve these latter goals, intra-regional transportation and supply chain bottlenecks should be addressed with higher priority. To underpin food security, we also see a strong need for scaling up agricultural development. With due attention to the region's high exposure to climate change, natural disasters and high energy prices, we also underscore the importance of building resilience against these exogenous shocks, and particularly welcome the authorities' intention to give greater scope for renewables. While we welcome the member countries' continued interest in capacity development activities, in view of the expanding policy agenda, we also call on the authorities to pay due attention to prioritization and sequencing. Finally, further progress on enhancing the quality of national statistics is warranted, with special focus on data for external accounts, which is also vital to underpin policy formation.

**Statement by Ms. Medearis and Ms. Rao on Eastern Caribbean Currency Union
Executive Board Meeting 22/71
July 27, 2022**

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

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

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

The authorities’ proactive efforts to mainstream climate and natural disaster preparation into their macro-fiscal framework are crucial for the region’s economic

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

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

**Joint Statement by Ms. Kashima, Mr. Peter, Mr. Piasecki, and Mr. Watanabe on Eastern
Caribbean Currency Union
Executive Board Meeting 22/71
July 27, 2022**

We broadly concur with the thrust of the staff’s appraisal and policy advice. We note that the ECCU economies are slowly rebounding from the pandemic, but the outlook is subject to large downside risks due to heightened inflationary pressures exacerbated by Russia’s war against Ukraine, supply-chain disruptions, and global monetary tightening. In particular, surges in food and energy prices are leading to a hike in living costs. Furthermore, natural disasters remain a primary concern, and structural reforms are essential, notably further developing digital technologies, investing in critical transport and renewable energy infrastructures, and enhancing human capital. Against this backdrop, we would like to offer the following comments.

In the medium term, creating space for growth-enhancing spending through fiscal reform is warranted. Setting up a credible rules-based fiscal responsibility framework (FRF), enhancing revenue mobilization, and rationalizing spending are critical. We also agree with staff that internalization of climate change risks and the impact of natural disasters is paramount, and encourage the authorities to utilize Fund TA tools such as the Climate-PIMA and Green-PFM. Furthermore, it remains critical to attract further concessional financing given the fiscal needs in these countries. In this regard, steadily implementing necessary fiscal reforms and meeting the regional debt target are vital to increase market confidence.

Elevated uncertainty in global financial markets and the increase in NPLs call for continued vigilance of financial sector soundness. Close monitoring of banks’ asset quality and provisioning buffers are necessary as the loan moratoria program expires. Enhancing the non-bank supervisory framework and harmonizing it within the region will also be paramount to mitigate potential systemic risks arising from the non-bank sector. Moreover, we agree that further efforts are needed to address emerging financial risks such as those emanating from climate change and cybercrime. We stress the importance of improving (i) the AML/CFT framework by tackling the issues identified in the CFATF assessment and (ii) the oversight and transparency of the CBI programs to preserve the already limited CBRs that are critical for the region.

We also note the authorities’ proactive stance to harness the benefits of digital technologies. As for the CBDC project launched by the ECCB, further efforts should be taken to strike an appropriate balance between reaping the benefits of DCash and reducing its potential risks. While positively noting that the ECCB already acknowledges this point, we urge close engagement between the authorities and staff on this front. It is crucial that the CBDC is well designed at an early stage to avoid disruptions going forward.

Steady implementation of structural reforms is critical for achieving sustainable and inclusive growth. We agree that focusing on strengthening climate resilience, improving regional transportation, and enhancing human capital and digitalization are steps in the right direction. On climate adaptation, we note that using the RST once operational could also be instrumental, together with climate-related TA from the Fund. Steadier progress on renewable energy generation would over time help strengthen the external position and improve energy security. We also reiterate the importance of close collaboration with the other IFIs and international partners, especially on developmental and emerging issues. Further accelerating regional integration, including through removing trade barriers, is also indispensable for boosting mutual growth and enhancing resilience.

**Statement by Mr. Buissé, Mr. Roman, and Ms. Albert on Eastern Caribbean Currency
Union
Executive Board Meeting 22/71
July 27, 2022**

We thank staff for their detailed report and Mr. Jennings, Mr. O'Brolchain, and Ms. Edwards for their informative Buff statement. We broadly share staff's appraisal and would like to add the following comments:

The accumulation of shocks exacerbated ECCU's vulnerabilities. The rebound in 2021 has been modest, and the materialization of some downside risks could further delay the return to GDP pre-pandemic level, possibly beyond 2024. Food and energy security remain important concerns in a context of rising inflation due to the consequences of the Russian invasion in Ukraine. We insist again on the necessity to be careful in the language in the report regarding the negative impact of the sanctions, as the invasion is the cause for sanctions. We note that the impact of tightening global financial conditions on domestic interest rates and financial stability should be limited. We welcome that according to the Buff the fixed exchange rate parity with the dollar has served the region well, and foreign reserves remain high. *Could staff elaborate on the risk of competitiveness losses due to the US dollar appreciation?*

ECCU countries are significantly supported by IMF and other IFIs, and UCT programs could play a useful role to answer structural challenges and financing needs. As rightly highlighted in the report, IFIs are significantly supporting ECCU countries. We note the authorities' interest on the RST which can serve as a catalyst to other climate funds. However, as highlighted in the report, RST will need UCT programs. We regret not to see more UCT requests from the region. *Could staff give an update about their discussions with ECCU authorities about their interest in UCT programs since last year?* Beyond external resources, we continue to strongly encourage the authorities to implement the appropriate domestic policies and structural reforms, while continuing to encourage staff to provide the necessary CD. We welcome the important work from CARTAC in this area.

We support protection of the most vulnerable, but we see room for a better targeting and appropriate tax reforms. Reaching the regional debt target of 60 percent of GDP will remain challenging considering the deterioration of the fiscal situation, and we agree that trade-offs remain difficult for ECCU countries, meaning that fiscal resources should be managed carefully. We fully share staff's view about the necessity to develop a credible medium term fiscal framework as well as a better targeting of the most vulnerable. We encourage the authorities to allow a gradual pass-through of international energy and food prices, and to phase-out of generalized subsidies. We also insist on tax administration reforms, the rationalization of tax expenditures, and more broadly a better mobilization of domestic resources. In particular, more comprehensive and well-designed progressive tax reforms should be implemented where it's possible. We thank staff for the interesting selected issues on fiscal rules and natural disasters.

Ensuring financial integrity remains critical for the region. We welcome the resilience of the financial sector to the pandemic and the war in Ukraine so far, but the increase in NPLs

deserves specific attention. We encourage the establishment of the regional credit bureau and modernization of insolvency frameworks, which will help to accelerate private credit growth. Addressing AML/CFT, governance, and offshore taxation frameworks are critical. The recommendations by the European parliament and the US Congress last March to support abolishment of CBI schemes on security grounds is an important signal to highlight the importance of maintaining financial integrity, to avoid illicit activities and reputational risk. We agree that the loss of CBRs is a source of concern and encourage further work on the regional macroprudential framework to ensure financial stability. Finally, we fully share the importance to monitor closely crypto assets with appropriate safeguards regarding DCash, as well as addressing cyberthreats, and we encourage the quick implementation of the Virtual Assets Business legislation.

We continue to encourage the authorities to build resilience against climate change and implement an inclusive recovery. We welcome progress made by the authorities on climate policies. We encourage the development of renewables and energy conservation to improve energy security, as well as consideration given to climate risk scenarios in supervisory and regulatory frameworks, and we welcome the work of the ECCB in this area. We thank staff for the work in Annex VII showing that private insurance can reduce the reliance on financial aid from public sources after a disaster. On other structural fronts, we agree that investments in education are needed, especially considering the impact of the pandemic on school closures. We also note that the regional airline LIAT was declared insolvent in 2020, which caused significant transportation bottlenecks, and we encourage upgrades to intra-regional transportation infrastructure, noting that it will require public-private sector collaboration.

**Statement by Mr. Bhalla and Mr. Amarasekara on Eastern Caribbean Currency Union
Executive Board Meeting 22/71
July 27, 2022**

1. We thank staff for the comprehensive reports and Mr. Jennings, Mr. O'Brolchain, and Ms. Edwards for the insightful buff statement.
2. Following a notable pandemic-driven contraction in 2020, Eastern Caribbean Currency Union (ECCU) economies are on a gradual recovery path. Real GDP growth rates for 2021, 2022 and 2023 are estimated/projected at 4.9 percent, 7.4 percent, and 5.5 percent, which are higher than the below 2 percent average growth observed over the decade preceding the pandemic. With this growth performance supported by the high frequency indicators that point to a continued pick-up in domestic activity, we hope the ECCU economies will be able to successfully tackle the macroeconomic issues and scarring from the pandemic sooner than expected.
3. However, as noted by staff, downside risks remain significant, and require early attention of policymakers.
4. Higher food and energy prices, supply disruptions and transportation bottlenecks have exacerbated inflationary pressures. *Can staff elaborate on any available policy options to dampen inflation risks without excessively burdening the fiscal balances?*
5. We endorse the staff recommendation of maintaining fiscal prudence while protecting the vulnerable through health spending and temporary targeted transfers and enhanced social safety nets. Longstanding fiscal vulnerabilities of the region, including the high level of public debt and diverse fiscal outcomes, remain to be addressed early. Overall public debt has risen to above 85 percent of GDP in 2021, compared to the ECCU debt target of 60 percent by 2035, while budget balances vary from a surplus of around 7 percent to a deficit of around 12 percent for the eight countries in the region. This highlights the need for well-designed rule-based fiscal frameworks as emphasized by staff, and also the need for greater fiscal convergence to facilitate the long-term sustainability of the currency union. *Although authorities recognized that stronger fiscal consolidation efforts are required, we note that many authorities underscored the challenges of reaching the 60 percent debt target by 2035. In this context, can staff inform the Board on possible additional risks to the staff projections on debt sustainability in the region if fiscal outcomes continue to deviate from targets for too long? As noted in Selected Issues, we agree that fiscal rule design for the ECCU region may need to take into account the vulnerability of some jurisdictions to natural disasters. Can staff comment on the feasibility of such diverse fiscal rules for different members of a currency union?*
6. We also note that fiscal financing relied mostly on external sources, and such financing enabled the bridging of the large external current account deficit of over 16

percent in 2021 as well. In this context, the authorities need to remain vigilant on prolonged disruptions to tourism flows, continued high food and energy prices, and high financial costs, as the realization of these risks could destabilize the external sector further and intensify concerns on debt sustainability.

7. In relation to the financial system, we encourage the authorities to address its lingering legacy weaknesses as noted by staff. In addition, it is important for the authorities to continue to strengthen the AML/CFT, governance and offshore taxation frameworks, particularly by completing designation of the ECCB as the competent AML/CFT authority over banking institutions in the region. These efforts are crucial, especially given the large size of the informal economy in a number of member countries. With regard to the pilot program on DCash, we hope that the initial glitches could be addressed effectively, and the program could be expanded, thereby enabling greater financial inclusion.

8. We note with concern the likelihood of the long-term scarring of the ECCU economies due to the prolonged nationwide school closures in 2020 and 2021 as articulated in Selected Issues. *Staff may comment on practices from other countries that may help mitigate such scarring.*

9. We encourage the ECCU member economies prone to natural disasters to make use of long-term concessional financing options including the Fund's Resilience and Sustainability Trust (RST) to successfully address the challenges of disaster and climate change vulnerabilities.

10. With that, we wish the ECCU authorities and people every success in their endeavors.

Eastern Caribbean Currency Union

Responses to Technical Questions Posed by Executive Directors in Advance of
EBM/22/71—July 27, 2022

Staff's responses to technical questions are below.

Outlook

1. We note from the report that vaccine hesitancy is high in the region and would like ask staff to elaborate further on the vaccine rollout in ECCU countries.

- ECCU countries started the rollout of vaccination programs early in February 2021. The region has received significant vaccination donations from other countries, which helped address the supply constraints. Vaccines are now easily accessible to all citizens. However, vaccine hesitancy remains, stemming mainly from concerns of vaccine effectiveness, particularly among rural and less well-informed households. This highlights the importance of increased public education (including at the community level) to help reduce misinformation of risks associated with vaccines.

2. We would appreciate if staff could elaborate further on the factors behind their assumption that tourism will fully recover to pre-pandemic levels in 2024.

- A full recovery of tourist arrivals to pre-pandemic levels by 2024 is predicated on: (i) the absence of new COVID-19 variants that require reimposition of strong mobility restrictions; (ii) continued economic recovery in key tourism source markets—U.S. and UK, as well as in the Caribbean; and (iii) the war in Ukraine does not significantly reduce the demand for travel to the ECCU. On the supply side, there are expected increases in tourism sector capacity and improved economic infrastructure (such as new hotels in Grenada and St. Vincent and the Grenadines and airport redevelopment in St. Lucia), which will help attract additional flights and support tourism recovery.
- Caribbean Tourism Organization data suggest that in ECCU countries total tourist arrivals in 2021 recovered to 38 percent of the 2019 level, and that in the first quarter of 2022 reached 60 percent of the 2019 level. As also noted in the Staff Report, the tourism recovery has varied across countries, with Antigua and Barbuda, St. Lucia, and Grenada outperforming the ECCU average in 2022 so far.

3. Can staff elaborate on any available policy options to dampen inflation risks without excessively burdening the fiscal balances?

- Urgently upgrading intra-regional transportation infrastructure through public-private collaboration and removing trade barriers (that eases supply disruptions and facilitates trade) can help promote intra-regional trade (particularly agricultural goods) and alleviate the burden on imported food from outside the region.

- Accelerating the shift to renewables and investing in energy conservation can help reduce the reliance on imported fuels and the cost of energy. Making regulatory adjustments and improving investment climate can help facilitate private sector participation through providing greater predictability over investment opportunities, alleviate regulatory constraints to business entry, and channel financial sector flows towards investments in renewables.
- 4. We note with concern the likelihood of the long-term scarring of the ECCU economies due to the prolonged nationwide school closures in 2020 and 2021 as articulated in Selected Issues. Staff may comment on practices from other countries that may help mitigate such scarring.**
- Consistently, [IMF staff analysis](#) on G20 countries also finds that severe disruptions to schooling over the past two years across both advanced and emerging market economies are among the key causes of scarring.
 - Measures to minimize and redress schooling losses from other countries included: reducing class sizes and adopting shift systems to facilitate in-person classes while protecting student and teacher health (France and Italy), conditioning cash transfers on school attendance (Brazil), providing funding to support students' mental health and academic recovery (UK), dedicating a significant share of the stimulus package to boost investment in the deployment of digital infrastructure while strengthening teacher capacities in remote teaching (Korea), and designing financial assistance programs for low-income families to access digital devices and increase connectivity (China, Korea, and Saudi Arabia).

Fiscal Policy

5. Which steps are envisaged to strengthen the coverage of existing social safety nets, and do the authorities consider CD in this area?

- With limited fiscal space, country authorities in the ECCU face difficult decisions and are contemplating to strengthen the coverage of social safety nets by reprioritizing spending and raising additional revenue through broadening the tax base. In the context of the OECS regional initiative, the authorities are working on digitalizing government services, including e-payment for social programs and electronic identification system to expand the capacity and improve the targeting of social safety nets.¹ In addition, some ECCU countries (Grenada, St. Lucia, and St. Vincent and the Grenadines) are considering the introduction of permanent unemployment insurance schemes, based on the experiences with temporary unemployment insurance programs introduced during the pandemic. The

¹ Antigua and Barbuda authorities are also working with UNICEF to digitize beneficiary information on cash transfer programs to improve targeting, pursue proxy means testing, and establish a central beneficiary registry for all social programs. In addition, they are recertifying the people on their stipend registry to ensure their continued eligibility and planning on targeting households instead of individuals.

new government of St. Lucia announced a strong social protection agenda, including the development of a social safety net, universal healthcare, and programs to tackle high unemployment. The Fund stands ready to provide CD on social safety nets if requested by the authorities.

6. Could staff elaborate on the public debt trajectory of St. Lucia specifically, given that this is the only country within the ECCU in which the debt level is projected to remain almost stable over the projection horizon, at a level of about 90% GDP? Could staff also elaborate on the most important fiscal risks, in the absence of a debt sustainability analysis?

- St. Lucia's Article IV Staff Report has been recently issued to the Board where public debt trajectory and risks are covered. The Board meeting is scheduled for August 29, 2022. As discussed in that report, the fiscal outlook presents significant challenges due to high public debt and large financing needs. Assuming no policy changes, public debt is projected to stabilize at a high level, near 90 percent of GDP, in the medium term. The recovery and reduction in pandemic spending improve budget balances, but a short debt maturity debt profile keeps financing needs elevated over the medium term. Staff's projection assumes the government remains financially constrained, with limited ability to access sustained net additional funding based on available official envelopes and limited appetite to increase exposure to the government in the regional bond market.
- Stress tests in the debt sustainability analysis (DSA) in St. Lucia's Staff Report point to substantial risks to debt sustainability from higher than projected interest rates, weaker than projected growth and fiscal deficit paths, and high vulnerability to natural disasters. As such, ambitious medium-term consolidation measures are needed to enhance debt sustainability. Reaching the regional debt target of 60 percent of GDP by 2035 would require consolidation measures of around 2½ percent of GDP.

7. Can staff inform the Board on possible additional risks to the staff projections on debt sustainability in the region if fiscal outcomes continue to deviate from targets for too long? As noted in Selected Issues, we agree that fiscal rule design for the ECCU region may need to take into account the vulnerability of some jurisdictions to natural disasters. Can staff comment on the feasibility of such diverse fiscal rules for different members of a currency union?

- The baseline projections assume that once the recovery is on a solid footing, most countries (i.e., Antigua and Barbuda, Dominica, Grenada, and St. Vincent and the Grenadines) would resume the implementation of their fiscal consolidation plans to reach the ECCU regional debt target of 60 percent of GDP by 2035. Nevertheless, the outlook is subject to large downside risks, primarily from rising food and energy prices, slowing growth in advanced economies, natural disasters, and new COVID outbreaks, which could affect tourism and construction activity, put additional strain on fiscal spending, and delay fiscal adjustments. In addition, the U.S. and European Parliament recommendations to restrict visa-free access to third countries with citizenship-by-investment (CBI) programs could incur potential loss of fiscal revenues, which has been

an important source of revenue for some ECCU countries for building resilience to natural disasters.

- Should some of these risks materialize and fiscal outcomes continue to deviate from targets for too long, it would undermine market confidence and limit access to regional and official financing. In this context, the need to adopt or reactivate well-designed fiscal responsibility frameworks (FRFs), including internalizing the impact of natural disasters, has become more pressing to signal credible medium-term fiscal plans, given the potential increase in external borrowing costs due to tighter global financial conditions and elevated debt.
- To support the regional rule at national levels, several ECCU countries have adopted rule-based FRFs tailored to individual countries' circumstances, including Anguilla (2013), Grenada (2015), St. Vincent and the Grenadines (2020), Antigua and Barbuda (2021), and Dominica (2021). Given the diverse characteristics and situations among ECCU countries, including variations in initial level of debt and vulnerability to shocks, countries should continue to customize their FRFs while following the general principles as outlined in the 2022 ECCU Staff Report.

Financial Sector Policy

8. **Considering the lack of lending, have there been efforts to conduct regional private sector credit surveys to gauge the investor demand for credit and supplier appetite to lend? Furthermore, what effects would the upside risks to inflation and the propensity to raise rates have on credit extension – that is, in real terms, how high is the cost of credit and can it lead to a deterrence in credit demand? Staff comments are welcome.**
 - Further to a study of the ECCU credit market that was undertaken in 2015–17 by the ECCB, with support from the World Bank, regarding the demand and lending appetite for the medium, small and micro enterprises (MSME) sector, the Eastern Caribbean Partial Credit Guarantee Corporation (ECPCGC - launched in October 2020) has continued consultations with participating lenders on the types of credit products (mainly partial guarantees) that are best suited for rollout to MSMEs, as well as on supporting measures necessary to improve their capacity to access credit.
 - As ECCU banks rely mainly on funding through domestic deposits and financing from overseas sources is limited, increasing global interest rates are not expected to directly impact banks' cost of funds. Given the current weighted average bank lending rate of 6.9 percent and projected inflation of 5.6 percent for 2022, this would imply a small real positive interest rate for bank lending. This suggests that cost of credit would not be an impediment for credit growth.
9. **We would be interested to know which segment or sector poses the most risks to the banking system (as Box 3 mentions that there are limited direct bank exposures to the most vulnerable sectors)?**

- ECCU banking sector credit is largely concentrated in private households, construction and land development, real estate activities, and public sector exposures. Credit risk concerns would therefore include households' ability to repay loans given changing incomes and potentially higher than average levels of unemployment. In the context of vulnerability to natural disasters, projected NPLs would mostly be concentrated in the tourism and construction sectors (Staff Report Annex VIII). Credit risks may also be amplified where there are significant exposures to public sector bodies whose balance sheets could be stretched by natural disasters (Box 3).

10. We encourage staff to elaborate on financial sector developments and risks. It is not clear to us whether increased competition in the banking sector is related to non-bank financial institutions.

- Although there is no available data on credit interest rate trends for credit unions, indicative data reflects that the sector's credit growth rebounded to about 9 percent for 2021 from a low of about 6 percent in 2020, which would reflect lending to individuals (members). Moreover, the active promotion of loan-switch campaigns with reduced interest rates in late 2019 by a regional bank (which acquired most of the ECCU Scotiabank operations) and a global bank increased competition for credit in the banking sector. As a result, the weighted average lending rate fell from 8.1 percent in late 2019 to 6.8 percent at end-2021 (paragraph 22 of the Staff Report). Banks' credit growth improved to almost 5 percent over the period 2021Q2 to 2022Q1, reflecting lending mainly to corporates and the local sovereign. Several banks have pointed to the minimum savings rate (MSR) as a constraint on further reductions in lending rates.

11. In view of the significant local investment needs, we would like to better understand what factors prevent greater investment of domestic resources in the region.

- Banks have indicated that the levels of liquidity build-up are due in large part to challenges in identifying sound local credit opportunities that are in alignment with their risk parameters, including concentration risk. Domestic banks have started to step up lending and diversify credit risk through participation in loan syndication opportunities where these fall within acceptable risk boundaries, and they indicate intended participation in MSME lending backed by ECPCGC and other similar guarantees. However, the more recent improvement in credit growth continues to be outpaced by deposit growth. The ineffective framework and limited markets for disposing of non-performing loans in some member countries also operate as a deterrent to bank credit. Pending all member countries' passage and implementation of new and amended legislation to support expanded participation in the ECCU securities and capital markets, the investment of domestic resources through these channels remains limited.

12. Could staff provide a timeline for the RSSB's implementation?

- In 2021, the ECCB initially estimated the RSSB legislation to be passed and the RSSB operationalized within three years of the Monetary Council's approval of the related draft

legislation. Currently, the ECCB expects to have an agreed roadmap and timetable on these by the time of the ECCB Board's first meeting in 2023.

External Sector

13. Could staff give us an update on the status of IMF financial assistance with ECCU countries?

14. Can staff elaborate on the updates on the Fund's financial assistance arrangements with the ECCU countries?

- As of June 30, 2022, total outstanding RCF loans with Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines amounted to SDR 73.3 million, and total outstanding purchase with Grenada amounted to SDR 10.22 million.

ECCU: Outstanding Purchases and Loans

Country	Facility	SDR (Million)	Percent of Quota
Dominica	RCF loans	14.59	126.83
Grenada	RCF loans	16.40	100.00
Grenada	ECF arrangements	10.22	62.32
St. Lucia	RCF loans	21.40	100.00
St. Vincent and the Grenadines	RCF loans	20.91	178.72
Total	RCF loans	73.30	
Total	ECF arrangements	10.22	

15. As stated in the Buff statement, the authorities are concerned about their high levels of debt which could prevent them from accessing the RST. We would appreciate staff's comments on this issue.

- As noted in the proposal establishing the RST, to qualify for an RSF arrangement a member would need: (i) a package of high-quality policy measures consistent with the purpose of the Trust; (ii) a concurrent financing or non-financing program with UCT-quality policies; and (iii) sustainable debt and adequate capacity to repay the Fund. Like with all Fund lending, approval of an RSF arrangement and completion of reviews will require the members' debt to be assessed as sustainable in the medium term under the applicable debt sustainability framework (LIC DSF or MAC SRDSF).

16. We invite staff to elaborate on how the RST could play a catalytic role in small island countries, such as those in the ECCU.

- RST financing can be amplified through its catalytic role. Support for a country's macroeconomic and climate policies (such as those in ECCU countries' disaster resilience strategies or national adaptation/disaster plans) under the RST and accompanying UCT could be seen as a seal of approval for sound policy frameworks and reform commitments. The RST could thus incentivize other stakeholders—IFIs, private sector, governments, donors, climate funds—to provide financing in support of

countries' reforms. Catalytic reforms under the RST could include putting in place green PFM systems and addressing weaknesses under the Climate PIMA to enhance transparency. Additionally, reforms could focus on improving the investment climate to facilitate private sector participation, including by providing greater predictability over investment opportunities, alleviating regulatory constraints to business entry, and channeling financial sector flows towards projects that enhance climate resilience.

17. We wonder how staff evaluate the ECCU authorities' opportunities to tap concessional financing and grants to a greater extent.

- Staff sees scope to more systemically identify resilience investments that could be financed through donor grants and concessional financing. This can be done by couching the investments within the governments' disaster resilience strategies and national adaptation/disaster plans which may also help meet transparency requirements for donor financing.
- In addition, accelerating the adoption or reactivation of well-designed rule-based country-specific fiscal responsibility frameworks can help strengthen the credibility of medium-term fiscal plans, boosting donor confidence. Enhanced debt management and data coverage, and public investment and financial management can help improve transparency and spending efficiency, and hence the prospects for donor financing.

18. We note the authorities welcome of the Resilience and Sustainability Trust (RST) and wonder if staff can elaborate if any interest has been expressed from ECCU countries in obtaining financing from the RST?

19. Can staff provide more details on the intention of ECCU countries to the RST?

- The authorities welcomed the RST. The ECCU country teams will continue engaging with the country authorities in supporting their efforts to build resilience, including during upcoming Article IV consultations, and Annual Meetings. The dialogue will also build on past collaboration of designing countries' Disaster Resilience Strategies and other resilience-building efforts.

20. While we understand that the authorities attach high importance to maintaining the strength and the stability of the EC dollar, staff's further elaboration on the sustainability of the fixed exchange rate policy would be welcome – also considering the US dollar's recent surge.

21. Could staff elaborate on the risk of competitiveness losses due to the US dollar appreciation?

- The ECCU's stock of international reserves has remained high. Supported by the ECCB's prudent practice, the backing ratio under the quasi-currency board mechanism has remained robust, averaging 96.4 percent during March-June 2022, well exceeding the statutory requirement of 60 percent. Maintaining a robust level of the backing ratio is

critical to safeguard the quasi-currency board arrangement, as noted in 2021 ECCU Article IV Consultation Staff Report.

- A further appreciation of the U.S. dollar will lead to a more appreciated EC dollar against non-U.S. dollar currencies due to the peg arrangement. This will weaken competitiveness, especially for tourism, but the impact will be mitigated by the majority share of U.S. tourists in the market.

22. Could staff give an update about their discussions with ECCU authorities about their interest in UCT programs since last year?

- With the support of the IFIs and bilateral development partners as well as market financing sources, most ECCU countries are able to finance their budget deficits for the current fiscal year. For those that continue to face elevated near-term gross financing needs (for example Antigua and Barbuda), all available financing options, including UCT-quality arrangements, are being explored. Staff remains closely engaged with the authorities and will continue the discussions during upcoming Article IV consultations.

DCash

23. Could staff comment on the central bank digital currency “DCash” since its launch and the safeguards measures in place?

- DCash, the first Central Bank Digital Currency (CBDC) introduced by a currency union, has been rolled out to all ECCU countries. 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 ECCU countries, which share the same currency) transactions.
- To contain risks, some safeguard measures are embedded in the design of the DCash pilot program. To mitigate financial disintermediation risk, the size of its holding and transaction values is limited, with no interest accrued and no use for foreign exchange transactions. The ECCB will have the sole authority to issue and redeem the digital currency and will be able to fully control its supply. It has a “two-tier system” to fully utilize the comparative advantage of (i) the private sector to interact with customers and carry out the relevant AML/CFT requirements, including the necessary customer due diligence measures; and (ii) the central bank to act as the supervisor to ensure that financial institutions are compliant with the AML/CFT regulatory framework, and to provide trust and manage the DXCD scheme in line with its payment system policies. The ECCB can observe each transaction data (but anonymously) and the outstanding stock of the DXCD in each digital wallet, and clients will have no direct access to the ECCB accounts. Cybersecurity risks are mitigated at the pilot stage by limited scope of system integration.

24. We take note that the uptake has been slow. Could staff expand on the causes behind the limited progress? Are there any lessons to be learned thus far for other small open economies considering CBDCs?

- The adoption of DCash so far has been generally slow, due to several reasons. The rollout of the DCash pilot coincided with the time when financial institutions and merchants faced resource constraints in the context of increased burden posed by the pandemic. In addition, DCash is still relatively unknown to the public, which underscores the need for public education campaigns to raise awareness and informing the various stakeholders about the potential benefits of a CBDC. In addition, the uptake was interrupted by the two-month outage in early 2022. While the underpinning Distributed Ledger Technology (DLT) and existing data/transactions were unaffected, all new transactions and on-boarding of new users were impacted resulting in a reduction in public confidence in DCash. This was further exacerbated by a lack of timely communication on the extent and cause of service disruption and timelines for recovery.
- The DCash experience so far provides some useful lessons for other countries who are considering CBDCs. CBDCs have the potential to increase economic efficiency and foster financial inclusion, but sufficient efforts and resources are needed to raise public awareness and facilitate communication with end-users to boost confidence and uptake. Implementing safeguard measures will help contain various risks to which CBDCs could expose central banks and the financial system, including those related to financial intermediation, financial integrity, and cybersecurity. The DCash outage experience underscores the need to enhance central banks' operational resilience and business continuity plans, including through incident response planning and ensuring adequacy of skilled resources. It also stresses the importance of clear divisions of operational, oversight and risk management responsibilities between the central bank and technology providers, and establishing appropriate project management governance arrangements. Moreover, greater efforts in exploring business cases and incentives for the private sector would help promote adoption.

25. We would appreciate knowing if staff or the authorities have an available assessment of DCash, given that the pilot would have ended in some member economies.

26. We wonder if staff could elaborate on the expected timeline and main steps for the pilot project, as well as on their call for a clear exit plan (in case of major issue with any of its vendors)?

27. The report also lacks an assessment from staff on the Central Bank Digital Currency, Dcash, while we note the identified cyber risks related to it.

- The DCash pilot program is still ongoing in all ECCU countries, and the ECCB plans to continue the pilot program until June 2023 (one year after Anguilla joined the pilot) to allow all member countries at least one year experience with DCash and the collection of a large enough sample before both the ECCB and IMF staff assess and draw lessons from the pilot.

- Staff has been recommending the ECCB to establish a project management governance framework, including a clear exit plan from the pilot project, in case of major issues with any of its vendors. The ECCB has recruited a project manager for the DCash project and has started the development of a governance framework and a project management plan, which is expected to be completed later this year.

28. We would welcome any further insights from staff on how digital financial innovation in the private sector might affect access to finance and credit domestically, as well as access and exposures to cross border capital flows?

- Digital financial innovation could help users access finance and transact more cheaply, easily, and widely. Recent years have seen major improvements in financial inclusion, largely driven by rapid growth in digital access to financial services: in Sub-Saharan Africa, the number of registered mobile money accounts grew by 55 percent between 2016 and 2020, to 760 per 1,000 adult population. Digital financial innovation can help ensure equal access to digital infrastructure, greater financial and digital literacy, and the avoidance of data biases.
- Digital financial innovation could also help access to finance for Micro and Small Enterprises (MSEs). MSEs' access to finance is plagued by high costs, scarcity of good quality collateral, and incomplete financial data. Digital financial innovation acts both on the demand of services by MSEs and on the supply of services to MSEs. For instance, mobile services or bundling financial services with payments remove the need to access bank branches and lowers costs. Mobile app can be the one-stop shop for multiple financial services (e.g., payments, deposits, lending, insurance, investments, and wealth management), thus providing enhanced access and lower unit cost of service. Moreover, the use of machine learning, real time customer tracking and intelligence gathering, can reduce information asymmetries between lenders and borrowers and increase efficiency of credit application and approval.
- CBDC in particular could promote financial inclusion by offering a digital means of payment to the unbanked population, including MSEs, and making it possible to do offline transactions where there is poor digital connectivity. Poorer households in remote or disadvantaged areas often have difficulties in meeting identification requirements in traditional financial intermediaries. "Tiered wallet" design of CBDC, like those implemented by the ECCB with DCash, including wallets with lower balance thresholds and simpler customer onboarding, can help towards financial inclusion while guarding against illicit financial flows.
- Enhanced access to domestic financial services improves access to cross-border payments as well. Here digital financial innovation can help by attacking the current pain point of cross-border payments (slow, costly, opaque, and cumbersome). For instance, data collection and machine learning can streamline checks for AML/CFT, improving speed of transfers, as well as reducing compliance costs for payment service providers, resulting in lower costs for users. In addition, global ongoing efforts on harnessing digital financial innovation could help achieve cheaper, faster, and more inclusive payments through a multi-pronged approach. This includes increasing the efficiency of existing

cross-border payments systems and creating the basis for a sound and efficient adoption of digital money for cross-border use.

29. Since the use of the ECCB's digital currency (D-Cash) remains on a limited scale, while it also faced outages, we are also interested in staff's further view on the potential of this currency to promote financial inclusion, improve ECCU payment systems and address corresponding banking relationship vagaries.

- DCash has the potential to increase economic efficiency and foster financial inclusion, through reducing the use and costs of cash and cheques and improving the efficiency of the retail payment system. Retail payments are dominated by cash and cheques in the ECCU, estimated at 80 percent of total payments. The costs of cash usage, including transportation, storage, and security for both the central bank and the private sector are high, and so are fees for credit or debit cards and account transfer services that banks charge their customers. Cheques are also inefficient, especially because settlement takes time. Private sector initiatives to adopt more advanced payment system technology, such as privately provided "fast payment services" or e-money services, have thus far been limited, as such investment is not profitable given the lack of economies of scale. The inefficiency in the payment system adds to the costs of doing business, especially for small and medium-sized enterprises. Small firms in the informal sector bear the cost of inefficient payment disproportionately, and many households in these island economies are still under-banked (as the number of credit and debit cards per person is much lower than in other regions with similar development level). Financial friction implied by high payment costs hinder economic growth and make the system more vulnerable to shocks.
- The ECCB's focus in the near to medium term is on promoting DCash's successful operations in the ECCU in EC dollar, within circumscribed limits on transaction size and other prerequisites. Accordingly, until and unless the digital currency is structured to become interoperable across international exchanges, the scope appears limited for this digital currency to be able to address or operate as substitute for regional and international business and transactions in external currencies, which are currently facilitated through correspondent banking relationships. The ECCB, however, expressed the interest towards building interoperability with other CBDC in the region in the future.

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