Press Release No. 09/21
FOR IMMEDIATE RELEASE
February 2, 2009

International Monetary Fund
Washington, D.C. 20431 USA

Statement by an IMF Mission on ECCU Common Policies: Discussions with Montserrat

Mr. Paul Cashin, head of an International Monetary Fund (IMF) staff mission to the Eastern Caribbean Currency Union (ECCU) countries, issued the following statement today after the conclusion of the mission:

“An IMF mission is visiting the members of the Eastern Caribbean Currency Union during January and February to conduct the Fund's 2009 discussions on ECCU policies. This mission augments the work of the individual country Article IV consultation discussions and covers issues that cut across the region. The mission team will visit the six IMF-member countries of the ECCU—Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines—and key regional institutions, including the Caribbean Development Bank, the Eastern Caribbean Central Bank (ECCB), and the Organization of Eastern Caribbean States. For the first time, the mission will also visit Anguilla and Montserrat, two U.K. overseas territories and non-IMF members of the ECCU. In this context, the IMF mission visited Montserrat on January 12, 2009.

“The regional discussions will focus on the economic prospects, opportunities, and challenges facing the ECCU region. A concluding statement that outlines the policy recommendations will be presented in March for consideration by the members of the ECCU. A report reflecting these discussions will be prepared subsequently and presented to the IMF's Executive Board. The reports for 2006 and 2007 are publicly available on the IMF website.

“Facing a volatile and weakening external environment in 2008, the region has come off a period of strong growth during 2004-07. Although the global financial crisis has so far had little impact on ECCU financial markets, growth is estimated to have decelerated to about 2½ percent in 2008, reflecting sluggish activity in tourism and construction. Inflation accelerated during the first three quarters of 2008, but eased toward end-2008 with the retreat of world commodity prices and slowing economic activity. Limited fiscal consolidation achieved in 2007—reflecting higher tax revenues and lower capital expenditure—is estimated to have unwound in 2008 due to a decline in revenues and an increase in current expenditure, with public debt standing at about 93 percent of regional GDP at year end.

"Growth in the region is expected to remain flat in 2009, with risks tilted to the downside. Navigating through the turbulent environment requires carefully managing risks arising from the global financial crisis and economic downturn, while continuing to address fundamental issues facing the ECCU, particularly fiscal and debt sustainability. Key risks include a deep and protracted global downturn weighing heavily on the ECCU growth prospects, and sharp falls of capital flows to the region (particularly FDI), further dampening economic activity and threatening external stability. The ECCU's high vulnerability to shocks, exacerbated by its elevated public debt level, highlights the importance of further enhancing crisis preparedness. Additional and sustained efforts to push through structural reforms, such as tax reform, improving the business climate, and deepening regional integration, are key to enhance competitiveness and underpin the currency union.

"Despite recent progress in financial sector reforms, the long-enjoyed financial stability in the region cannot be taken for granted going forward. Waning economic growth after a period of rapid private credit expansion poses a major risk to the stability of banking system, through the deterioration of banks' asset quality. There is an urgent need to intensify oversight of banks and bring the nonbank financial sector under effective supervision. The significance of foreign banks in the ECCU also calls for strengthened cross-border regulatory cooperation and information sharing, which the ECCB has been pursuing.

"With very high public debt levels, there is little, if any, room for counter-cyclical fiscal policy in the ECCU. Minimizing fiscal slippages would require following through on revenue reforms (including the introduction and successful implementation of value-added taxes), containing expenditures and enhancing efficiency (particularly public investment and civil service wage bills), and strengthening debt management. Within this framework, a well-targeted social safety net is crucial for mitigating the disproportionate impact of economic hardships on the poor. Strengthening the currency union will also require establishing and meeting annual fiscal targets that can credibly achieve the ECCB's public debt to GDP target of 60 percent by 2020.

"It is in this context that the mission is discussing policy options with national and regional authorities. Montserrat continues to face a unique and challenging operating environment, with renewed volcanic activity, declining population, and inadequate external transportation linkages that limit its growth potential. The economy relies heavily on budgetary aid from the United Kingdom and grants from donors to finance government services, and to meet its large reconstruction needs in infrastructure. Indications suggest that, while economic growth picked up to about 3½ percent in 2008, activity is expected to slow considerably in 2009 as construction and private sector development are dampened by the global downturn. Key policy challenges are to maintain macroeconomic stability in this difficult global environment and to minimize economic disruptions from volcanic activity through strengthening the disaster mitigation process. The IMF team would like to thank the authorities of Montserrat, in particular, Governor Peter Waterworth, Chief Minister Dr. Lowell Lewis, and Financial Secretary John Skerritt, for the very constructive discussions held during this first visit. We wish the government and people of Montserrat every success in their reconstruction efforts, and in achieving sustained rapid growth and social progress."