INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 09/81
FOR IMMEDIATE RELEASE
March 19, 2009

International Monetary Fund
Washington, D.C. 20431 USA

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

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 – March 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 (OECS). 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 Anguilla during March 9-10, 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. Real growth is estimated to have decelerated to about 2 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 stalled in 2008 as both revenues and expenditures as a share of GDP remained fairly stable, with public debt standing at about 93 percent of regional GDP at year end.

"Real GDP in the region is expected to contract by about 1 percent 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 ECCU growth prospects, and increasing financial strains and sharp falls of capital flows to the region (particularly foreign direct investment), 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. Indeed, the recent shocks of CL Financial Holdings in Trinidad and Tobago and the Stanford Group in Antigua and Barbuda highlight the urgency to bring the nonbank financial sector (including offshore financial institutions) under effective regulation and supervision. Moreover, 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. It is, therefore, crucial to intensify oversight of banks and strengthen consolidated supervision of financial groups, particularly those that have domestic bank affiliates. The significance of foreign financial institutions 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. Following very rapid economic growth (averaging about 17 percent per annum) during 2004-07, activity was flat in 2008, reflecting the impact of Hurricane Omar and a downturn in construction and tourism activity. Anguilla is expected to experience sharp impacts from the global recession in 2009, and economic activity is expected to remain weak in 2010. While Anguilla's primary fiscal deficit deteriorated last year, its stock of debt has remained low at about 20 percent of GDP. The Anguillan economy is particularly dependent on flows of foreign direct investment (about 31 percent of GDP in 2008), which underpin activity in its dominant tourism sector. In the period ahead, the paramount challenge for the

Anguillan authorities is to continue to demonstrate their commitment to maintaining macroeconomic stability amid the global downturn. The IMF team would like to thank the authorities of Anguilla for the constructive discussions held during their visit. In particular, the IMF team met with the Honorable Victor Banks, Minister of Finance, Acting Permanent Secretary of Finance Wycliffe Fahie, former Permanent Secretary of Finance Carl Harrigan, and representatives of the financial and tourism sectors. We wish the government and people of Anguilla every success in their efforts to raise economic growth and achieve sustained social progress."