

SU/20/20

February 4, 2020

**The Acting Chair's Summing Up  
Eastern Caribbean Currency Union—2019 Discussion on  
Common Policies of Member Countries  
Executive Board Meeting 20/13  
February 3, 2020**

Executive Directors agreed with the thrust of the staff appraisal. While welcoming the ECCU's improved growth performance and public debt reduction in recent years, Directors noted that growth is expected to moderate going forward. In this context, achieving debt sustainability while building resilience to natural disasters would remain challenging for most ECCU countries. To help ensure strong and resilient growth and anchor sustainability in the region, Directors called for further fiscal consolidation, expedited structural reforms, and a speedy resolution of financial sector vulnerabilities. They underscored the importance of regional integration in complementing national policies to achieve those objectives.

Directors welcomed ongoing efforts in some ECCU countries to advance their fiscal responsibility frameworks and underpin the commitment to meet the 2030 regional debt target. They emphasized the importance of countercyclical policies to create space for building resilience to natural disasters, which would be supported by comprehensive Disaster Resilience Strategies that are currently being piloted in Dominica and Grenada.

Directors underscored the importance of fiscal integration and suggested enhanced cooperation in the design of tax incentives and the Citizenship-by-Investment programs. Such efforts would not only improve governance and limit a "race to the bottom", but they could also create additional fiscal space. They added that, over the longer term, a regional stabilization fund—underpinned by a strong governance framework—could also be considered.

Directors commended the ECCB for advancing essential regional financial sector reforms and called for accelerating the progress to address financial system vulnerabilities within a well-sequenced plan. Immediate efforts should focus on repairing bank balance sheets and operationalizing the new standard for impaired assets, modernizing insolvency frameworks and reviewing governance frameworks for the ECCB and deposit-taking institutions. Equally important is expediting the efforts to strengthen the supervision of non-banks, given their growing systemic importance. Directors also urged the national authorities to expeditiously pass critical legislation, particularly for strengthening AML/CFT measures, which are particularly relevant given sustained pressures on correspondent banking relations.

Directors noted that once the critical near-term priorities are addressed along with credible fiscal backstopping, steps toward a fuller banking union could take place in the long term. Such steps should include a robust deposit insurance scheme and a regional resolution and crisis management framework.

Directors highlighted the scope for the ECCB, national authorities, and financial institutions to further modernize the payment system to strengthen the monetary union. They pointed to the ongoing review of the legal framework for the payment system as being critical to facilitate emerging Fintech and nonbank e-payment services to operate and innovate.

While welcoming the authorities' pursuit for more financial innovation, Directors recommended that the ECCB's digital currency pilot project should proceed with caution. In particular, they advised that the authorities fully implement safeguard measures to contain various risks, including those related to financial intermediation, financial integrity, and cybersecurity. After the pilot, a cost and benefit analysis of the digital currency would be useful coupled with consideration of other alternatives focusing on upgrading the payment systems.

Directors encouraged the authorities' continued pursuance of structural reforms to boost private sector-led growth and ensure external sustainability.

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.