April 2, 2020
Approval: 4/9/20

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/7-2

2:30 p.m., January 28, 2019

2. Eastern Caribbean Currency Union—2018 Discussion on Common Policies of Member Countries

Documents: SM/18/298 and Correction 1; and Supplement 1; SM/18/299

Staff: Muñoz, WHD; Goodman, SPR

Length: 54 minutes

Executive Board Attendance

T. Zhang, Acting Chair

Executive Directors	Alternate Executive Directors
D. Mahlinza (AE)	
	F. Sylla (AF)
	R. Morales (AG), Temporary
	A. Park (AP), Temporary
	Z. Mohammed (BR) Temporary
	Y. Liu (CC), Temporary
	A. Del Cid-Bonilla (CE), Temporary
L. Levonian (CO)	
	S. Benk (EC)
H. de Villeroché (FF)	
S. Meyer (GR)	
	M. Siriwardana (IN)
	I. Lopes (IT), Temporary
	Y. Saito (JA)
	M. Daïri (MD)
	M. Merhi (MI), Temporary
A. De Lannoy (NE)	
	J. Sigurgeirsson (NO), Temporary
	L. Palei (RU)
	R. Alkhareif (SA)
	A. Srisongkram (ST), Temporary.
	P. Trabinski (SZ)
	A. Clark (UK), Temporary
	M. Svenstrup (US), Temporary

S. Bhatia, Acting Secretary
J. Morco, Summing Up Officer
J. Acheson, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
Legal Department: K. Kwak. Monetary and Capital Markets Department: G. Hosin nee Heywood. Strategy, Policy, and Review Department: M. Goodman. Statistics Department: M. Dinenzon. World Bank Group: T. Christie. Western Hemisphere Department: L. Bonato, Ding Ding, M. Ghazanchyan, A. Guerson, K. Ishi, B. Lissovolik, S. Muñoz, K. Srinivasan.

Alternate Executive Director: H. Razafindramanana (AF), J. Sigurgeirsson (NO). Senior Advisors to Executive Directors: S. Evjen (NO), D. Hart (CO), G. Heim (SZ), N. Jost (NE), Z.Mohammed (BR), J. Shin (AP), G. Vasishtha (CO), J.Weil (CO), C. Williams (CO). Advisors to Executive Directors: M. Albert (FF), S. Bah (AF), S. David (AP), O. Diakite (AF), K. Florestal (BR), I. Skrivere (NO), A. Srisongkram (ST), M. Sylvester (CO), Y. Zhao (CC), S. Alavi (MD).

2. EASTERN CARIBBEAN CURRENCY UNION—2018 DISCUSSION ON COMMON POLICIES OF MEMBER COUNTRIES

Ms. Levonian, Ms. McKiernan and Mr. Sylvester submitted the following statement:

Our Eastern Caribbean Currency Union (ECCU) authorities continue to value the constructive engagement with the Fund within the context of the regional policy discussions. In this regard, they welcome the Staff Report and the Selected Issues Paper (SIP). Our authorities broadly concur with staff's analyses and recommendations. Cognizant of the enormity of the challenges and risks ahead, they remain committed to pursuing sound macroeconomic policies and reforms and call on the international financial community and development partners to step up their support to help the region achieve its vision of socio-economic transformation.

Framework for Policy Implementation

The vision endorsed by the Monetary Council of the Eastern Caribbean Central Bank (ECCB) in 2016 remains the guiding framework for policy implementation. Our authorities' shared vision for the ECCU is "a strong Eastern Caribbean (EC) dollar, powered by a strong and resilient financial system; supported by sustainable public finances; enabled by a single economic and financial space; and manifested in full employment and a striving and thriving citizenry." Consistent with this vision, the ECCB within the context of its Strategic Plan 2017-2021 has identified the following five strategic goals that will guide its work program: (i) maintain a strong and stable EC dollar; (ii) ensure a strong, diversified, and resilient financial sector; (iii) be the advisor of choice to member countries in the pursuit of fiscal and debt sustainability; (iv) actively promote the economic development of member territories; and (v) enhance organizational effectiveness to ensure responsiveness and service excellence. Our authorities note positively that staff's policy advice and recommendations are broadly consistent with this strategic framework.

Real Sector Developments and Policies

A gradual recovery is underway, and the medium-term outlook is favorable, although risks loom large. Economic growth in the ECCU is recovering following the devastating impact of Hurricanes Irma and Maria in 2017. Our authorities are more optimistic about the pace of the recovery in 2018, estimating growth at around 3.0 percent as against staff's projections of 2.2 percent. Over the medium term, growth is expected to average around 3.0 percent. Notwithstanding the positive outlook, the region continues to face significant downside risks, mainly from natural disasters and external shocks. In this regard, our authorities will remain vigilant and will continue to take appropriate measures to mitigate these risks and address existing vulnerabilities.

Beyond the near- and medium-term priorities, our authorities will continue to implement structural policies to achieve inclusive and sustainable growth. Low growth, high unemployment and poverty levels remain key challenges for our authorities. This is compounded by limited fiscal space and still elevated debt levels. Member countries are committed to removing obstacles to facilitate robust growth, higher employment, and improved competitiveness. In this regard, our authorities will continue to prioritize reforms to improve the business climate; diversify the narrow economic bases, including through investments in renewable energy; strengthen regional and global interconnectedness, including through air and sea transport initiatives and technology; and remove rigidities to labor market expansion. Our authorities recognize a key role for technological innovation in helping to transform the region and will continue to explore opportunities in this space while safeguarding against inherent risks. Overall, they will continue to pursue the transformation of the ECCU region within the context of greater policy coordination and economic integration.

Building resilience to natural disasters and climate change is key to improving long-term prospects. The ECCU countries are ranked among the most natural disaster-prone countries worldwide. This has invariably stymied growth and contributed to high indebtedness. As staff rightly pointed out, the intensity and frequency of disasters are expected to increase as climate change intensifies. This disturbing trend is increasingly worrisome to our authorities. In this regard, they greatly appreciate staff's technical work on the benefits of building ex ante resilience to natural disasters, including through resilient investment and insurance protection. The SIP provides a very helpful application of the Fund evolving framework for assessing the costs, benefits and difficult trade-offs of building ex ante resilience while having to meet immediate and pressing development needs by countries with little or no fiscal space. Alongside the authorities' own efforts to deal with these challenges, they call on the international donor community to play a greater role in supporting their resilience building efforts, by providing much needed concessional financing and other assistance for the implementation of these ex ante resilience strategies. Our authorities also urge further work on incorporating vulnerability as a criterion for official development assistance (ODA) accessibility.

Fiscal Sector Developments and Policies and Debt Management

Our authorities continue to make progress in reducing fiscal and debt vulnerabilities and concur with the need for a prudent fiscal stance going forward. The overall fiscal balance deteriorated in 2017 largely due to one-off factors, including disaster-related spending. Preliminary estimates for 2018 indicate that the fiscal position strengthened, reflecting a strong recovery in revenues. Furthermore, the ECCU region's public indebtedness continued its downward path in 2017, helped by debt relief in some countries. Our authorities are determined to reach the ECCU target of 60 percent of GDP by 2030. In this regard, they have prepared medium-term fiscal frameworks consistent with this commitment. The medium-term plans provide for fiscal adjustment measures and medium-term deficit targets, as well as interim public debt targets for 2020 and 2025. Our authorities note staff's concerns related to some member territories not meeting the debt target by 2030 under current policies and have committed to closely monitor their plans and take actions as necessary to remain on course.

Our authorities broadly agree that strengthening the fiscal policy framework will be important to attainment of debt targets. Accordingly, some members are weighing the merits and demerits of legally-binding fiscal responsibility frameworks (FRLs). A key consideration for our authorities is the need for FRLs to be compatible with the objectives of robust, inclusive, and sustainable growth, including through supporting investments in climate resilient infrastructure. The ECCB will continue to promote building fiscal resilience as a key pillar of the ECCU socio-economic transformation agenda.

Our authorities will continue to strengthen the governance of their Citizenship-By-Investment (CBI) programs. Maintenance of credibility and integrity of these programs is a priority for the region. There is increased collaboration, information sharing, vetting of candidates, and harmonization of due diligence process among our authorities. The due diligence process is a layered approach involving both regional and international institutions.

Financial Sector Developments and Policies

Our authorities continue to make significant progress in strengthening the financial sector but recognize that more needs to be done. Financial sector soundness indicators are showing signs of strengthening. Capital adequacy, profitability, and non-performing loans (NPLs) continue to trend in the right direction. Credit is also beginning to rebound, albeit slowly. That said, our authorities broadly concur with staff on the current and emerging risks in the sector.

Our authorities remain committed to accelerating reforms to address remaining weaknesses and emerging risks and to fortify the financial system. In this regard, the ECCB will press ahead with its NPL resolution strategy, including intensifying efforts to operationalize the Eastern Caribbean Asset Management Corporation (ECAMC) and to implement further strategies to mitigate other financial sector stability concerns associated with loss of CBRs, AML/CFT, and the weaknesses in supervision and regulation, especially of the non-bank financial sector. Furthermore, the ECCB will continue to support member territories to design and implement reforms that will improve solvency, access to credit, and credit quality. Our authorities are appreciative of the efforts of the Fund in helping to strengthen the financial sector and encourage further efforts in this regard.

Engagement with the Fund and other Development Partners

Our ECCU authorities continue to enjoy a productive relationship with the Fund and other development partners. They are very grateful for the considerable amount of technical assistance (TA) the region continues to receive, including through the Caribbean Regional Technical Assistance Centre (CARTAC). Our authorities look forward to the continued strong support of the Fund in helping the region address its development challenges.

Conclusion

Our authorities are satisfied that progress is being made towards achieving the long-term vision of the ECCU, but also recognize the magnitude of the task ahead. They remain strongly committed to confronting the current and emerging risks and challenges and are cognizant that greater collaboration and economic integration are key ingredients going forward. In this regard, the continued flow of TA and financial support to the region and the effective coordination of ECCU work programs with regional and international institutions are critical in helping our authorities tackle these challenges in a steady and sustained manner.

Mr. Saraiva and Ms. Mohammed submitted the following statement:

We thank staff for the insightful reports and Ms. Levonian, Ms. McKiernan and Mr. Sylvester for their informative statement. The reports recognize multiple challenges that continue to face the Eastern Caribbean

Currency Union (ECCU), including weak fiscal performance, high debt, a vulnerable financial system, relatively low growth and competitiveness and high susceptibility to natural disasters. Accordingly, the actions taken by the authorities to address these challenges are welcomed and they are encouraged to continue to make progress towards strengthening the economies of the ECCU and attracting the necessary support from the international community.

Stronger fiscal frameworks anchored by ECCU public debt target, together with political backing are necessary to bolster ECCU's fiscal consolidation. Given that only two countries in the ECCU are on track to reach the debt target of 60 percent of GDP by 2030, the umbrella structure of leaving countries to adapt operational solutions to their circumstances, as suggested by staff, has merits. This would allow flexibility and customization of policies that would best fit the economic conditions of each country. Nevertheless, the success of this policy and the achievement of the debt target are dependent on the authorities' support and political commitment, as well as enhanced fiscal discipline. We are encouraged by the authorities' determination to fulfill this commitment, including by pursuing a sound medium-term fiscal framework, as underscored by Ms. Levonian and colleagues. Can staff indicate whether they have provided advice to the individual country authorities on the implementation of specific policies to achieve this target. That said, the ECCU economies are highly vulnerable to natural disasters and external economic shocks, which can distort its progress to achieving its fiscal targets. As such, the inclusion of escape clauses would be beneficial, as it enables the authorities time and space to respond to shocks.

ECCU economies can potentially benefit from adopting ex-ante resilience to natural disasters and climate change. We agree with staff that long-term macroeconomic performance can be enhanced by investment in resilience to natural disasters, as it would not only reduce the expected loses but increase returns on private investment, employment and output. This notwithstanding, the ECCU economies are small and open with high levels of debt and the large upfront investment costs would pose a challenge to the authorities, given their competing developmental needs and fiscal challenges. Whilst we are cognizant of the fact that fiscal space may be limited, we encourage the authorities to incorporate natural disasters resilience in their medium-term fiscal framework, since the benefits far outweigh the costs in the long run. Moreover, we believe that the support from the international communities is essential in helping the ECCU countries build ex-ante resilience to natural disasters.

Despite ECCB's progress on the regional sector reform, we remain concerned with the lingering effects of the correspondent banking relationships (CBRs) withdrawal. Whilst we take note the decline in CBR's across the region has stabilized, most banks have only one relationship, which expose them to concentration and withdrawal risks and significantly increased cost. The ECCB should continue to implement strategies to minimize the risk of CBRs decline, including information sharing and relationship building with current and prospective correspondent banks, strengthening AML/CFT regulatory, oversight framework for financial institutions and the completion of national risk assessments. Further, we expect full operationalization of the Eastern Caribbean Asset Management Company (ECAMC) to effectively reduce NPLs, despite staff's recommendation of it to be downscaled to receivership or wound up due to absent adequate progress. Nevertheless, we agree with staff that funding for the NPL acquisition should be premised predominantly on private sector options to maintain the targeted debt levels.

Enhanced financial sector oversight is necessary to address emerging risks arising from non-bank institutions. The rapid rise of credit union lending and insurance payouts due to catastrophic events in the region may contribute to financial system risks. The fragmented and weak regulatory supervision of the non-bank financial sector is a cause for concern, as the systemic risk from these institutions may spill over into the banks and result in a potential source of fiscal liability. Accordingly, the authorities in collaboration with ECCB are urged to strengthen the financial sector regulation and supervision, particularly for non-bank institutions.

Structural reforms will help enhance competitiveness and make growth more inclusive. It is noted that despite ECCU's comparative advantage of proximity to the North American tourist markets, tourist inflows are relatively low, as they are price sensitive and the services are relatively expensive. Structural reforms focused on improving the business climate by relaxing the supply side constraints and addressing the high electricity costs are welcomed, as they would not only help reduce high import prices but stimulate competitiveness in the tourism market. Meanwhile, inclusive reforms in the labor market and education are warranted throughout the ECCU countries. We take notice that comprehensive and vocational skills program adopted by Grenada promises to benefit the skill needs of the economy and the introduction of new technologies in the public sector have the potential to enhance efficiency. The other ECCU countries should consider implementing similar programs to ease the high unemployment and low productivity rates. Moreover, further regional integration to address the small size of internal markets and high cost would be of great benefit to ECCU countries.

Mr. Mouminah, Mr. Alkhareif and Mr. Rouai submitted the following statement:

We thank staff for a well-written set of reports and Ms. Levonian, Ms. McKiernan, and Mr. Sylvester for their informative buff statement.

The Eastern Caribbean Currency Union (ECCU) is slowly recovering from the 2017 catastrophic hurricanes but challenges remain. While tourism is recovering and important progress has been made in advancing financial sector reforms, macroeconomic indicators, in particular the fiscal and the external deficits, continue to deteriorate and the debt target of 60 percent of GDP by 2030 is unlikely to be reached by most countries. These vulnerabilities are compounded by weak external competitiveness and the recurrent risks associated with natural disasters.

We broadly agree with the staff appraisal which, as rightly noted in the buff, remains broadly consistent with the authorities' 2016 strategic framework. This includes a shift in the policy response to natural disaster from emphasis on recovery to building ex-ante resilience, further emphasis on financial sector reforms, and an acceleration of structural reforms to improve competitiveness, achieve inclusive and sustainable growth and therefore reduce unemployment and poverty.

We agree with staff on the importance of setting robust institutional framework to support fiscal consolidation. In this regard, we are happy to note that initial drafts of medium-term fiscal frameworks have been prepared by six ECCU members to help guide the achievement of the 60 percent of GDP target. Could staff offer some preliminary assessment of these frameworks?

We broadly support staff recommendation to build ex-ante resilience to natural disasters. In view of the ECCU's exposure to recurrent natural disasters, the recommendation to increase resilient investment and develop comprehensive insurance strategy against natural disasters is sensible and we note that the authorities also agree with this priority. However, this shift comes with some fiscal costs, estimated to be at least 0.6 to 2.6 percent of GDP. It is therefore critical to raise the much-needed concessional financing to support the authorities' own efforts. In the same vein, we missed in the Informational Annex the traditional section on relations with the World Bank Group and we would appreciate staff elaborations on the role of the World Bank in helping the region address natural disaster-related issues.

On financial sector issues, we support staff recommendations to improve financial stability across the region. While we note the progress achieved, we are concerned by the indications that bank credit growth remains constrained by the low levels of bankable loans, that correspondent banking relationships (CBRs) continue to affect businesses, and that foreign banks are leaving the region. Against this background, we encourage the authorities to press ahead with the remaining financial sector reforms to preserve financial stability, including in the areas of NPL resolution, improve access to credit, and credit quality, and address the AML/CFT concerns related to the citizenship-by-investment (CBI) programs.

With these remarks, we wish the ECCU's authorities all the success.

Mr. Trabinski and Mr. Heim submitted the following statement:

We thank staff for their insightful set of reports and Ms. Levonian, Ms. McKiernan, and Mr. Sylvester for their informative buff statement. We welcome the recent recovery of economic growth of the ECCU member countries in the aftermath of the severe natural disasters in 2017. At the same time, external and internal vulnerabilities weigh on growth, and major challenges lie ahead. The persistent fiscal imbalances, high levels of government debt and low competitiveness continue to jeopardize prospects for achieving durable growth and fiscal sustainability. Unresolved weaknesses in the financial sector add to these challenges and need to be addressed more forcefully. Against this background, we support staff's main policy recommendations, particularly their call for robust fiscal frameworks and improving resilience to natural disasters.

Fiscal frameworks of member countries need to be strengthened to achieve the ECCU's debt target. Current fiscal consolidation efforts need to be stepped up, given the increasing debt under the baseline scenario. We agree with staff that a common framework that allows for certain flexibility to accommodate country-specific circumstances and shock-absorption capacity could help improve fiscal responsibility, while also guiding convergence among the ECCU members. Given the region's heavy exposure to natural disasters and their systemic impact, the integration of ex-ante disaster resilience into fiscal frameworks and macroeconomic planning deserves further consideration by the authorities. This would help to ensure the fiscal affordability of resilience-building and mobilize external financing from the international community. While we acknowledge the importance of CBI programs in some countries, they should not be regarded as a continuous source of revenue and relying on them is not a sustainable debt reduction strategy. Also, CBI entail financial integrity risks.

Sustained financial sector weaknesses need to be addressed more forcefully. We welcome the important progress with the financial sector reform agenda. At the same time, weaknesses remain sizeable and pose important fiscal risks, limiting the region's growth potential and hampering foreign investment. Hence, we strongly encourage the authorities to implement staff's recommendations on further financial sector reform. In particular, the high level of NPLs must be addressed more resolutely. In this context, we welcome the affirmation in the buff statement that the ECCB is pressing ahead with its NPL resolution strategy. Moreover, we take good note of the authorities' progress to ensure compliance with international AML/CFT standards. Full compliance with international AML/CFT standards, together with strengthened regulatory and supervisory frameworks, will also be critical to mitigate the risk of a further decline of CBRs.

The implementation of structural reforms should be accelerated, and regional collaboration should be broadened. There is a strong need to further improve competitiveness and potential growth by lowering the cost of doing business, reducing unit labor costs, and broadening regional collaboration. With respect to the latter, efforts to address technical capacity constraints and to make better use of economies of scale should be intensified. Could staff provide an update on the plans to create a single domestic space that would simplify tourist travel throughout the ECCU?

Mr. Saito and Mr. Komura submitted the following statement:

We thank staff for the comprehensive report and Ms. Levonian, Ms. McKiernan, and Mr. Sylvester for the informative statement. We welcome that the ECCU economy is gradually recovering in 2018 following the devastating impact of Hurricanes Irma and Maria in 2017. Its outlook is favorable in the near term, but the ECCU economy remains vulnerable, especially in the public finance and financial sector. Natural disasters compound these vulnerabilities. Against this backdrop, we agree with staff that decisive policy measures to improve fiscal position, build resilience to natural disasters, and strengthen the financial sector are necessary. As we broadly support the thrust of the staff's appraisal, we would like to limit our comments to the following:

Natural Disasters and Ex-Ante Resilience

A comprehensive ex-ante resilience strategy is warranted. The ECCU economy is vulnerable to natural disasters due to its geographical features. Furthermore, natural disasters are becoming more intense and frequent. Against this backdrop, we agree with staff that building ex-ante resilience to natural disasters should be a key priority. To this end, developing a comprehensive ex-ante resilience plan would be helpful to deal with associated fiscal costs. We welcome staff's detailed analysis in the SIP on the benefits of resilient investment which would facilitate discussions with the authorities in establishing the plan.

Fiscal Policy

We agree with staff's recommendation on developing robust fiscal responsibility frameworks. Based on current policy, public debt in most countries would diverge from the ECCU target of 60 percent of GDP by 2030. Moreover, as the ECCU shifts its policy focus to building ex-ante resilience, the ECCU members need to manage upfront costs related to resilient investment. In this context, developing robust fiscal responsibility frameworks is imperative to satisfy development needs, especially building resilience to natural disasters, and ensure fiscal sustainability. While we agree with the proposed elements of the fiscal frameworks laid out in the Box 1, including debt anchor, operational target, and escape clauses, we would like to ask a few questions. First, staff mentions that the operational targets should be calibrated on a country-specific basis. Could staff describe specific factors which should be considered to calibrate the operational targets? Second, compliance partly depends on reputational costs in breaching the operational target. Are such reputational costs expected to be large in ECCU countries when taking their political situation and public opinion into account?

Financial Sector

Further timely actions are necessary to address several weaknesses in the financial sector. We welcome progress on the regional financial sector reform agenda, such as an initial capitalization of the Eastern Caribbean Asset Management Company (ECAMC) for reducing high NPLs and an initiation of the transfer of AML/CFT supervision for banks to the ECCB. However, the financial sector remains vulnerable. For example, natural disasters and emerging-problems in CBI-related loans raised NPL ratio and provisioning against NPLs is not adequate. Also, while the decline of CBRs across region has stabilized, maintaining CBRs is more challenging and costly. We concur with staff on the policy recommendations to tackle these vulnerabilities and risks. In this regard, we would like to hear staff's view on CBRs. Specifically, many Caribbean countries have tried to reduce risks of losing CBRs and the Fund has supported their efforts, collaborating with other institutions. Could staff comment on effectiveness of the Fund and other institutions support and lessons for other regions based on experiences until now?

Mr. Beblawi and Ms. Merhi submitted the following statement:

We thank staff for a very insightful set of papers and Ms. Levonian, Ms. McKiernan, and Mr. Sylvester for their helpful buff statement. The economic recovery in the ECCU member countries continues following the catastrophic impact of Hurricanes Irma and Maria in 2017. Tourism is slowly picking up in hurricane-stricken countries and has remained strong elsewhere in the ECCU. While risks to the outlook are broadly balanced, growth in the ECCU continues to be hindered by weak fiscal performance, financial sector fragilities, and low competitiveness, in addition to the region's vulnerability to external shocks and natural disasters. Policy discussions rightly focused on how to strengthen resilience to shocks by reducing fiscal imbalances and strengthening the fiscal policy framework, while addressing the financial sector weaknesses, and boosting growth and competitiveness. As we broadly share staff's analysis, we would just add a few comments for emphasis.

The fiscal balance for the region has worsened, reflecting lower inflows from citizenship-by-investment programs, and increase in current spending, as well as higher reconstruction. Therefore, decisive action to durably improve the fiscal position and reach the regional debt target of 60 percent of GDP by 2030 is needed. We note from the report that progress in approaching the region's public debt target has been insufficient - with only two countries on track to reach the target - despite debt relief and periodic revenue windfalls. A strong fiscal framework across the region, supported by effective monitoring and enforcing mechanisms, is needed to promote fiscal discipline and achieve the target. Moreover, the adoption of institutional improvements recommended by staff would enhance the efficiency of public services and improve the public investment outcomes. These would include improving the robustness of accounting procedures for debt, deficit, and CBI inflows; full recording of contingent liabilities; and improving fiscal projection.

Building resilience to natural disasters is crucial given that the ECCU is one of the most vulnerable regions to natural disasters, but it is also challenging given the scarce resources. The shift to resilient public infrastructure is important in reducing expected losses from natural disasters and raising returns to private investment, employment, and output. While we note that the additional costs of resilient investment would make it difficult to attain the ECCU debt target, we consider that concessional financing from the international community, including climate funds, could play a key role in closing the fiscal gap. In addition, we agree with staff that ECCU countries should also develop a comprehensive insurance strategy against natural disasters.

Despite important progress on the regional financial sector reform agenda, more needs to be done to address the remaining vulnerabilities. As noted in the Paper, the withdrawal of correspondent banking relationships remains a major challenge for the banking system. This challenge calls for strengthening the regulatory frameworks, and for banks to take a pro-active approach with correspondent banks to find possible solutions. We encourage further Fund work in this regard to help identify more concrete solutions and create more awareness about this issue and its macroeconomic implications. Moreover, a realistic plan is needed to address the high levels of NPLs and improve provisioning. Close monitoring of banks' progress to ensure that banks adhere to their NPL resolution plans and fully comply with prudential standards on collateral valuation and provisioning will be needed. Regulators should also ensure that banks enhance their risk management and strengthen their capital buffers. We agree with staff that plans for the resolution of weak non-bank institutions need to be established and implemented by country authorities, in collaboration with the ECCB.

With these comments, we wish the ECCU authorities further success in their reforms.

Mr. Daïri and Mr. Alavi submitted the following statement:

We thank staff for the comprehensive report and Ms. Levonian, Ms. McKiernan, and Mr. Sylvester for their helpful buff statement.

The economies of the Eastern Caribbean Union (ECCU) are recovering from the 2017 devastating hurricanes, supported by a pickup in tourism and reconstruction activity, and the medium-term outlook, as projected by staff, is favorable, albeit with significant downside risks. However, long-standing challenges facing the ECCU countries, including exposure to natural disasters, high debt levels, vulnerable financial systems, weak competitiveness, and lack of economic diversification, call for steadfast implementation of the authorities' strategy to build resilience to natural disasters, sustain fiscal efforts to achieve medium-term debt sustainability, strengthen competitiveness, and address financial sector vulnerabilities. We are in broad agreement with the staff appraisal and offer the following comments.

Enhancing fiscal performance is necessary to achieve the ECCU public debt target of 60 percent of GDP by 2030. We agree that strong fiscal frameworks appropriately tailored to individual country circumstances would help reduce pro-cyclicality and build fiscal resilience and welcome the indication that the six ECCU countries have already prepared medium-term fiscal frameworks consistent with this objective. We note that some member authorities have mixed views on the need for legally-binding fiscal responsibility frameworks and see merit for flexibility in implementation to accommodate shocks and tail risks and strengthen political commitment to agreed medium-term fiscal targets.

Building on the progress achieved in addressing financial sector vulnerabilities, further efforts are needed to enhance the foreclosure and insolvency frameworks to reduce NPLs and strengthen banks' balance sheets. Operationalizing the mandate of the Eastern Caribbean Asset Management Company (ECAMC) would be a step in the right direction. We encourage the ECCB to continue with its efforts towards enforcement of prudential standards and risk management and strengthening AML/CFT supervision to avoid the risk of further withdrawal of correspondent banking relationships. On the recurring advice to phase out the ECCU minimum saving deposit rate, could staff comment on the impact of the mandated rate on banks' resource costs?

We underscore the critical importance of sustained implementation of structural reforms to address weak growth, high unemployment, and vulnerability to natural disasters. Improving the business climate, enhancing competitiveness, bringing down the high electricity costs, and strengthening regional cooperation and integration would foster investment and allow ECCU countries to take full advantage of their proximity to the U.S. market. We take comfort from the authorities' commitments in these areas, as highlighted by Ms. Levonian, Ms. McKiernan, and Mr. Sylvester.

Strengthening resilience to natural disasters and climate change and containing their economic and fiscal impact is also crucial. We support staff recommendations in this area, including building resilient infrastructure,—which may be costly and would call for international support, including easier access to the climate funds, to avoid undermining medium-term fiscal sustainability or reducing other key infrastructure investment and social programs—and developing a layered insurance coverage that includes a saving fund for self-insurance, access to the regional catastrophe risk insurance facility, and issuance of catastrophe bonds depending on the severity of the disaster. Staff may wish to indicate how the cost of such insurance would be shared between the public and the private sector.

Mr. Gokarn and Mr. Siriwardana submitted the following statement:

We thank staff for their comprehensive reports and Ms. Levonian, Ms. McKiernan, and Mr. Sylvester for their insightful buff statement. Growth in the ECCU is gradually increasing after the impact of hurricanes Irma and Maria in 2017, although inflation remains subdued, reflecting a negative output gap. However, the primary and overall fiscal balances have deteriorated, mainly due to disaster-related spending. The current account balance also has deteriorated. The overall public debt level has declined due to debt relief in some countries. Overall, the medium-term outlook is favorable but significant risks remain. The post-hurricane events clearly highlight the region's increasing vulnerability to natural disasters and external shocks like many other small and vulnerable island developing states. The currency union is at an important juncture in its socioeconomic transformation, requiring strong measures to effectively tackle them. Hence, continued pursuit of policies with effective coordination and deeper regional integration is vital to achieve inclusive growth and reduce poverty. In this regard, the authorities' strong commitment, indicated in the buff statement, to confront the challenges is commendable. We broadly agree with the thrust of the staff report and its recommendations, and limit our remarks to the following points for emphasis.

Building ex-ante resilience to natural disasters is imperative in the ECCU, given the increased intensity and frequency of such events. We commend staff for the informative SI paper, which highlights the need for a paradigm shift to build resilience. The competing resource needs and fiscal sustainability concerns in the region necessitate maintaining an appropriate balance between these two opposing requirements taking important trade-offs into consideration. The effective implementation of the proposal to engineer a three-layer insurance framework to internalize the costs of natural disasters could also be affected by the budgetary constraints. This situation underscores the need for enhanced regional financing mechanisms and the increased support from the international donor community to complement ex-ante resilient building efforts by governments in the currency union. Staff comments are welcome. We support the authorities' call for incorporating vulnerability as a criterion for official development assistance (ODA) accessibility. Could staff comment on any factors that prevent this request from being met? At the same time, we encourage the authorities to continue with advancing due diligence requirements of donor funds.

Fiscal vulnerability remains a key challenge in ECCU, given the still elevated debt levels. As staff has indicated, expansionary bias policies, sometimes driven by political cycles in some countries, need careful attention to reduce fiscal vulnerabilities and strengthen the region's economic progress. Hence, the presence of effective operational frameworks is of utmost importance to address sustainability challenges and meet the regional public debt target level of 60 percent of GDP by 2030. We note that only a few countries will be able to achieve the 2030 debt target in the absence of strong and committed efforts. In this context, the authorities' commitment to closely monitor the individual country plans and take actions as necessary in meeting the debt targets, indicated in the buff Statement, is reassuring. Staff comments are welcome on the specific policies and mechanisms to increase regional coordination to reduce fiscal costs, preserve revenue and meet the debt target. While the strong recovery in the revenue in 2018 is encouraging, efforts to enhance domestic revenue mobilization should be continued while prioritizing expenditures. We also encourage authorities to strengthen their fiscal consolidation efforts by adopting appropriate fiscal responsibility legislation considering country specific circumstances, with the technical assistance from the Fund.

The progress achieved in the financial sector is commendable but further efforts are required. We would welcome accelerated reforms to address remaining weaknesses and emerging risks to the financial system. Strengthening of the activities in the Eastern Caribbean Asset Management Corporation (ECAMC) will also be important to effectively address financial stability issues. The subdued credit growth should be fostered by addressing the constraints to credit flows. The establishment of a Credit Bureau and the Deposit Insurance Fund will also help strengthen this process. We would welcome staff's comments on the establishment of a macroprudential framework for ECCU. We noted, with concern, the significant impact of the catastrophic events on the insurance sector. Staff comments are welcome on the plans to revive the insurance sector to provide necessary insurance, and also to address financial stability risks and fiscal costs going forward. We encourage the authorities to continue their efforts to further improve the AML/CFT framework and address the remaining issues in the correspondent banking relationships (CBRs).

Accelerating structural reforms with a coordinated approach is critical. It will help address persistent competitiveness problems, improve productivity and remove constraints to growth thus strengthening resilience to external vulnerability. In this regard, we encourage the authorities to intensify their efforts to improve business climate, reduce energy costs through investments in renewable energy, strengthen regional and global connectivity, address governance, criminal and security issues, and remove labor market rigidities.

We positively note the ECCU's efforts to harness the benefits of disruptive technologies to modernize their operations and support the economic transformation. Staff comments are welcome on the MOU signed for a blockchain technology project and the authorities' plans to issue digital fiat currency.

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

Mr. Ostros, Mr. Evjen and Ms. Skrivere submitted the following statement:

We thank staff for the comprehensive report and Ms. Levonian, Ms. McKiernan, and Mr. Sylvester for their informative buff statement. The ECCU is facing multiple challenges related to low competitiveness, low growth, weak fiscal performance, and a vulnerable financial system. In addition, the region is burdened by frequent natural disasters, compounding the region's economic vulnerabilities. We broadly concur with staff's analysis and recommendations but would like to emphasize the following points.

As natural disasters are becoming more frequent and more severe, it should be a key priority to shift from post-disaster recovery to ex-ante resilience building. We support staff's view that scaling up resilient infrastructure and insurance coverage against natural disasters should play an important role in this. We take note of staff's analysis showing that more investment in resilient infrastructure will have a significant impact on potential growth and reduce the public debt burden in the longer term. However, the high upfront costs of resilient capital underscore the need to further improve the sustainability of the fiscal position. We appreciate staff's engagement via the Climate Change Policy Assessment (CCPA) and look forward to a more comprehensive assessment after the pilot exercises have been finished.

Fiscal sustainability is a necessary precondition for such a shift in strategy. We share staff's concerns that under unchanged policies, the ECCU authorities will fall short of their debt reduction targets set for 2030. We urge the authorities to strengthen their fiscal effort, anchoring the debt reduction plans within a well-specified, rules-based, and operationally effective medium-term adjustment strategy. We also support the recommendation to enhance transparency and predictability of fiscal policy so that the framework can gradually facilitate union-level coordination and improve the region's clout in securing donor funding. The staff report states that initial drafts were under preparation at the time of the mission and we note from the BUFF statement that progress has been made. We would appreciate an updated assessment from staff on the new medium-term frameworks.

While recognizing important progress on the regional financial sector reform agenda, we call for more resolute actions to address the remaining weaknesses as well as emerging risks in the financial sector. With banks still burdened by high nonperforming loans (NPLs), we call for prioritizing and speeding up the process to address the chronic NPL situation, in which the Eastern Caribbean Asset Management Corporation (ECAMC) has a major role. We agree with staff's assessment that the Eastern Caribbean Central Bank (ECCB) should establish a plan for banks to reduce the NPLs significantly. However, time will show if aiming at no more than 10 percent by end-2019 is over-ambitious given that the high volume of NPLs today in part probably comes as a result of the banks' lax credit policies. Removing impediments to NPL resolution should be seen as a priority, including the modernization of insolvency and foreclosure legislation and easing restrictions on non-citizen holdings. We encourage the authorities to consider measures to improve the supervision and oversight of the non-bank financial sector.

The authorities should prioritize structural reforms that support productivity and strengthen competitiveness. The ECCU remains heavily reliant on the tourism sector, which in most countries constitutes more than half of exports. However, its global market share has declined, in part due to price competitiveness issues. We concur with staff that countries should accelerate the implementation of their investment strategies in renewable energies as the potential for increasing the use of such energies is significant.

We encourage the authorities to consent to publication of the report.

Mr. Jin and Ms. Zhao submitted the following statement:

We thank staff for the informative report and Ms. Levonian, Ms. McKiernan, and Mr. Sylvester for the helpful buff statement. The report rightly focuses on fiscal balance and debt target, as the challenges facing the region are compounded by limited fiscal space and still elevated debt levels. To this end, a robust fiscal framework is needed to achieve fiscal sustainability and build resilience. As we broadly support staff's assessment, we will limit ourselves to the following points.

A robust fiscal framework is warranted to attain debt targets. Staff assesses that progress in approaching the region's 60 percent of GDP public debt target has been insufficient and fiscal policies have had a strong pro-cyclical bias in most countries. In this regard, we see merit in staff's proposed fiscal responsibility frameworks that could help to bolster fiscal performance and reduce debt. We also agree that the framework needs to be calibrated on a country-specific basis and each country should have the flexibility to select operational and institutional elements that best fit its conditions. At the same time, we encourage staff to address several countries' concerns that strict implementation of such framework could de-facto constrain public investment and to provide technical assistance where necessary.

We see the benefits of building ex ante resilient investment and insurance schemes to natural disasters. We recognize that resilient investment for natural disasters can enhance long-term macroeconomic growth but at the same time are aware of the increased near-term fiscal costs that might open a transitional financing gap. We would welcome staff's comments on what possible incentives could be considered to favor long-term investment. As the report has pointed out, concessional financing from the international community, including climate funds, is a key option. Could staff share with us about the overall volume and accessibility of such funds?

Continued efforts are needed to safeguard financial stability. We welcome the progress made on the regional financial sector reform agenda and recognize the need for further actions to address the current and emerging risks. Slow resolution of high NPLs in indigenous banks as well as the lack of alternatives to correspondent bank relationships (CBRs) could magnify the vulnerabilities in the region. In this vein, we call on the authorities to upgrade and strengthen the financial sector regional oversight framework and encourage staff to further engage with the authorities with the needed technical assistance to build capacity for effective implementation of such framework.

Structural efforts are also crucial to the region's competitiveness and inclusive growth. In addition to fiscal consolidation and financial sector reform, we also agree that long-term commitment to implementing structural reforms in investment and business climate, public sector efficiency and labor market reforms will be instrumental to enhance the region's competitiveness. In staff's view, what are the priorities for the structural reforms?

Mr. Lopetegui and Mr. Morales submitted the following statement:

We thank staff for the well-written report and Ms. Levonian, Ms. McKiernan, and Mr. Sylvester for their insightful buff statement.

Economic activity is recovering from the adverse impact of the 2017 natural disasters. Growth is projected to pick up in 2018 and 2019 helped by higher tourist arrivals and strong construction activity. However, risks are tilted to the downside given the region's exposure to external shocks and natural disasters. In the medium term, efforts to raise competitiveness are required on several fronts, including by reducing the costs of electricity, labor skill mismatches, and public-sector inefficiencies. Also, new legislation on foreclosure, insolvency and credit bureaus should enhance access to credit, contributing to a significant improvement in the business climate. In addition, as noted by Ms. Levonian, Ms. McKiernan and Mr. Sylvester in their buff statement, planned progress in strengthening regional and global interconnectedness, removing rigidities to labor market expansion, and facilitating technological innovation would go a long way in helping achieve higher growth.

We agree with the staff that strengthening the regional fiscal framework should be given high priority. Despite the reduction of public debt thanks to debt relief for some countries, the region remains off track to meet the public debt target of 60 percent of GDP by 2030, and fiscal space remains limited in light of the expected deterioration of the underlying fiscal deficit. In this regard, we welcome the preparation of a medium-term fiscal framework in some countries. Fiscal frameworks tailored to country characteristics should allow for the introduction of operational targets to guide fiscal policy aiming at achieving the regional debt target by 2030 and building up buffers to an extent sufficient to insure against natural disasters over time. By avoiding pro-cyclical policies, fiscal frameworks would also help reduce uncertainty through the business cycle, favoring higher and sustainable GDP growth. To ensure that such a reform becomes ingrained in government policies and operations, the adoption of sound fiscal frameworks should be accompanied by improvements in public finance management, including in budgeting and public investment management, and the introduction of fiscal responsibility legal provisions.

Mitigating the region's exposure to natural disasters requires long-term planning to allow for effective ex-ante preparedness. Recurrent natural disasters have been addressed by disorderly ex-post rehabilitation efforts in periods of sharp revenue decline, which have compromised fiscal consolidation. We agree with staff that a paradigm shift is especially urgent in light of climate change challenges that will likely raise the intensity and frequency of disasters. Based on historical patterns, staff finds that a "resilient public investment" strategy could raise growth by 0.1-0.4 percentage points per year. However, high upfront fiscal costs may bring public debt above the medium-term debt target by 4-20 percentage points by 2030. Thus, for this paradigm shift to be effective while preserving fiscal sustainability, a combination of a more ambitious front-loaded fiscal adjustment, the adoption of a new fiscal framework, and the introduction of flexible provisions to meet the medium-term debt target appear necessary. Consistency between medium-term fiscal consolidation efforts and optimal preparedness for natural disasters would be required to ensure adequate financing of additional investments and sufficient insurance coverage over time.

Decisively addressing financial sector weaknesses would not only help contain risks but also support credit growth in the medium term. Long-standing high nonperforming loans (NPLs) and insufficient provisioning conspire against an environment of trust for financial intermediation and may lead to resistance to the implementation of upgraded prudential standards. At the same time, the proliferation of credit unions' lending activity raises new challenges to financial supervision, given reported limitations in terms of capacity and availability of resources. In addition, the reduction in the scale of operations by foreign banks makes it necessary to ensure an orderly revamping of the framework for financial intermediation. We agree with staff that a realistic plan to reduce NPLs, based on time-bound action plans by individual banks, should be introduced promptly, followed by close monitoring of the adoption of upgraded prudential standards. Regarding the strategy to address chronic NPLs, progress towards acquisition of a critical mass of NPLs has been slow and funding modalities are yet to be finalized. We encourage the authorities to move rapidly to find funding options involving private sector participation given limited fiscal resources, and upgrade insolvency and foreclosure laws to mitigate legal uncertainty, easing restrictions in non-citizen property to widen the scope for private sector participation. By contrast, it is not clear what the main risks are in practice arising from a decline in corresponding banking. Clarification by staff would be welcome.

We encourage the country authorities to introduce enabling legislation to reinforce the AML/CFT oversight framework. Up to date, only three countries have formally designated the ECCB as Supervisory Authority for AML/CFT for banks. The introduction of appropriate legislation would support efforts to strengthen and harmonize AML/CFT oversight frameworks. With this, we wish the authorities success in their endeavors.

Mr. Raghani, Mr. Bah and Mr. Diakite submitted the following statement:

We thank staff for their comprehensive set of papers and Ms. Levonian, Ms. McKiernan and Mr. Sylvester for their informative buff statement.

We welcome the gradual resumption of growth in countries of the East Caribbean Currency Union (ECCU) in the wake of natural disasters which have notably impacted negatively the tourism sector in affected economies. Notwithstanding this recovery, we note that key risks are building up, including the worsening of the region's fiscal imbalances, high level of debt, persistent vulnerabilities in the financial sector, and the prospects of natural disasters. We therefore encourage ECCU members, through collective efforts, to rebuild buffers to mitigate these risks and vulnerabilities. They should also strengthen their resilience to other potential shocks, including the impact of trade tensions, tightening of financial conditions, and cyberattacks. We broadly agree with staff's analysis and recommendations going forward and would like to emphasize the following:

Sustained fiscal consolidation and management of fiscal risks are essential to reduce further the high public debt and build buffers to mitigate natural and external shocks. Despite recent debt relief for some member countries, the debt level is persistently above the region's target of 60 percent of GDP and therefore remains an important source of macroeconomic vulnerability that should be addressed through increased fiscal consolidation. In this regard, further efforts towards greater revenue mobilization beyond the CBI programs and periodic revenue windfalls will be necessary. We also recognize the daunting challenge of enlarging the tax base in most countries whose economies are not sufficiently diversified. We would appreciate staff's elaboration on what the member countries could do collectively to boost revenue in the short term in such a context. We also agree that strong medium-term fiscal frameworks, if well calibrated to the characteristics of the region, would help address the debt issue and the pro-cyclical bias of fiscal policy. To this end, we stress the need for a strong collective commitment of member countries in conducting fiscal policy at the regional level.

Establishing effective coordination and enforcement mechanisms will be essential to ensure that the currency union meets its objectives.

As the region experiences more frequent and intense natural disasters, we agree that a proper ex-ante risk management framework is required to build up financial and infrastructural resilience. The devastating effects of natural disasters on the growth prospects and debt sustainability of the ECCU countries call for the development of proactive and preventive policies in order to mitigate disaster vulnerabilities. In this context, the challenges highlighted by the authorities are very relevant, given their limited fiscal space and administrative capacity. Therefore, more external resources are needed to deal with natural disasters in view of limited domestic financing, and insufficient public investments in the infrastructure sector. We support the authorities' call to the international community to further increase their financial and technical assistance to help the ECCU countries to build strong ex-ante resilience.

Progress made in advancing the reform agenda in the financial sector are welcome. However, we note that persistent vulnerabilities remain in the banking sector. In this context, the strategy for reducing NPLs, the implementation of risk-based supervision and on-site examinations of banks are encouraging. We also support the adoption of the law to establish a credit bureau framework in four-member countries as it will contribute to foster financial access and inclusion, and regional integration as well. It is also important to make steadfast strides in addressing the remaining weaknesses in the banking sector, including legacy NPLs, the resolution of non-bank institutions and implementation of the required strategies to address the issue of declining correspondent banking relationships and AML/CFT. Furthermore, establishing strong regional supervisory bodies will help provide coordination and enforcement mechanisms in the resolution of banking and financial sector issues.

Boosting competitiveness and growth will require far-reaching structural reforms to improve the business environment. In view of the decline in the tourism market of the ECCU, we agree that economic diversification should be a key priority for the region to foster sustained growth and encourage job creation. Therefore, it will be important that member countries step up their efforts to attract more private investments in other economic sectors as well. In this regard, we welcome the commitment of the common central bank (ECCB) to support member countries in terms of policy advice and reforms of processes to improve their ranking in the World Bank's Doing Business Index. Other key impediments to growth that need to be addressed to attract private investments include labor markets rigidities, insufficient workers' skills, and high electricity and transport costs.

With these comments, we wish the ECCU member countries every success in their regional integration efforts.

Ms. Pollard and Ms. Svenstrup submitted the following statement:

The ECCU has seen a welcome recovery in growth in 2018, a year after catastrophic hurricanes inflicted devastating damage across the region. Going forward, the key challenges will be boosting growth and natural disaster resilience in the context of limited fiscal space and addressing unresolved vulnerabilities in the financial sector.

The ECCU public debt target of 60 percent of GDP is a reasonable anchor, although achieving this in a sustainable manner will be challenging in many countries and will require difficult trade-offs. We urge country authorities to develop their fiscal responsibility frameworks to support convergence considering individual circumstances. As staff helpfully note in Box 1, even a legally-binding framework can be designed to be flexible enough to accommodate exogenous shocks. We urge the authorities to ensure adequate technical and institutional arrangements necessary to support the implementation of fiscal strategies. Planned structural reforms will also help support growth by improving the business environment and strengthen interconnectedness.

We broadly support staff's recommendation that the authorities explore further enhancing ex-ante natural disaster resilience through both insurance and infrastructure investment. However, this must be done in the context of limited fiscal space and considering the opportunity cost of other development priorities and pro-growth spending opportunities.

Although important progress has been made in advancing the regional financial sector reform agenda, we urge the authorities to take further effort to strengthen the resilience of the banking and non-banking sectors. We agree with staff's analysis and recommendations in this regard. Could staff provide an update on their engagement with regional authorities and the private sector to explore potential ways to mitigate further declines in correspondent banking relationships?

Finally, we appreciated that Ms. Levonian, Ms. McKiernan, and Mr. Sylvester's buff Statement provides insight on the strategic framework of the ECCB. We would have appreciated more discussion of this topic in the staff report, which included scarce mention of monetary policy or a discussion of the merits of the exchange rate regime. Given the region's competitiveness issues and risks associated with the ambitious fiscal consolidation plans, we think it is prudent for staff and the authorities to actively discuss the full range of policy tools.

Mr. De Lannoy, Mr. Fanizza, Mr. Ray, Mr. Jost, Mr. David, Ms. Park, and Ms. Lopes submitted the following statement:

We thank staff for the comprehensive set of papers and Ms. Levonian, Ms. McKiernan, and Mr. Sylvester for their informative buff statement. The report illustrates how natural disasters can be macro-critical for parts of the membership - often smaller states - and that this vulnerability is increased by more frequent and intense natural disasters. Overall, we welcome the thoughtful and comprehensive recommendations to the authorities, which rightly address a wide range of policies, and which we broadly share. Also reflecting the Board discussion on Building resilience in countries vulnerable to natural disasters in November 2018, we would like to make several comments for emphasis.

Overall, we welcome staff's focused assessment and agree with the priority placed on the recommendation to build ex-ante resilience – actually, the report constitutes a good example for how this issue should be approached. Weather and climate related risks are, for the most part, external, and cannot be influenced by the authorities. Building ex-ante resilience, in order to reduce their impact, appears, unfortunately, the most effective course of action. Such a strategy is also in line with the three-pillar approach as presented in the November Board meeting, which we support. We concur with staff that effective public investment choices are likely to enhance economic potential even if a standard cost benefit analysis would only start yielding positive returns in the medium- to long-term. We welcome the longer time horizon taken into account here. In line with staff, we believe that increasing the economy's resilience can, for instance, also create confidence and help attract private investment.

Given the high frontloaded costs, we note that increasing spending towards building ex-ante resilience can be difficult for the authorities in light of competing development needs and fiscal challenges. We understand the points raised by Ms. Levonian, Ms. McKiernan, and Mr. Sylvester in this context. We also agree that international donor support, including via IFIs, remains an important element in addressing the challenges that lie ahead and helps close the financing gap. In this context, we would like to re-iterate our full support for the IMF's capacity development efforts in the region, including increased involvement through climate policy assessments which assist in accessing funding from donors and from climate funds. More broadly, the Fund can also play a role by helping countries to put disasters, climate change and risk reduction into a country's macro-fiscal framework.

We thank staff for the overview of risks included in the RAM, many of which could be classified as external. We remain concerned by the risk assessment in the RAM that both the likelihood of occurrence and the probable impact of weather-related events are found to be high, including in the short-term. We take note of staff's assessment that these events increase damage, destroy physical capital and lower tourist arrivals. The impact of these shocks is relevant for both fiscal and economic development of the region. In that sense, and in addition to the thorough work presented in this report, we look forward to staff's work on fiscal policies in the context of climate change mitigation and adaptation.

We support staff's recommendation to further enhance institutional fiscal reforms, including on budgeting and public investment management. We also subscribe to staff's recommendation that regional coordination could help accelerate the process of setting standards, facilitate peer reviews and create economies of scale.

While we appreciate the use of the Doing Business Indicator in the staff report to underpin the structural challenges the authorities are facing, we are not convinced of the use of country rankings by using TPI point-estimates as presented in Figure 6. Cross-country comparisons and rankings can omit important country-specific details. As such, and particularly for smaller economies, the methodologies used in TPIs might distort the picture, and available data points should be handled with care and not applied automatically.

Mr. Benk and Mr. Hagara submitted the following statement:

We thank staff for their helpful report and well-focused accompanying Selected Issues Papers, and Ms. Levonian, Ms. McKiernan, and Mr. Sylvester for their informative buff statement. After the adverse impact of natural disasters in 2017, the gradual recovery of the Eastern Caribbean Currency Union countries in 2018-19 is welcome news. Nevertheless, weaknesses in the financial sector and risks arising from a self-reinforcing combination of high debt, vulnerability to natural disasters and low potential growth need to be addressed. We broadly agree with staff's appraisal and would like to add the following comments.

Fiscal consolidation efforts complemented by stronger fiscal responsibility frameworks are needed to ensure debt sustainability in the medium to long term. While the debt relief together with windfall revenues from CBI programs helped to reduce the region's overall debt level, the underlying fiscal deficit is estimated to increase in 2018, reflecting expansionary bias of the fiscal policy. This adds to concerns about a longer-term progress towards the ECCU debt target of 60 percent of GDP by 2030, with only two countries assessed to be on track. Against that backdrop, we appreciate staff's extensive discussions with the authorities on fiscal frameworks and broadly agree with staff's advice that, at the current stage, the ECCU countries should tailor their fiscal frameworks to specific country characteristics, guided by a few basic common principles at the regional level. Nevertheless, the success of fiscal consolidation will also depend on the authorities' commitment to their debt targets.

Increasing ex-ante resilience building efforts would benefit the ECCU. The ECCU countries are repeatedly hit by natural disasters, affecting their growth potential and inflicting substantial costs on governments' finances. We therefore support staff's call to prioritize ex-ante resilience building, while increasing efficiency of public investment. Building buffers is however associated with additional near-term fiscal costs. We agree that costs from climate change and increasingly frequent natural disasters should not solely burden the ECCU countries and the international community has a role to play in assisting them. In that vein, staff's simulations provide a helpful illustration of the potential growth gains and debt reduction from such an approach in the long term.

The authorities should strengthen their efforts to address the vulnerabilities in the financial sector. We welcome the authorities' progress on the regional financial sector agenda, including on capitalization of the ECAMC, collateral valuation standards, implementation of risk-based supervision and on-site examinations of banks. Nevertheless, despite the strengthening cyclical position of the ECCU economies, credit growth is still stagnant. The non-performing loans ratio remains high, particularly for government-owned banks, and needs to be addressed. The recent augmentation of the ECAMC capacity seems to be a step in the right direction, but the authorities' continued efforts are needed to ensure meeting the July 2019 statutory deadline for the acquisition of a critical mass of commercial NPLs. At the same time, increasing lending by credit unions also requires the appropriate supervision and oversight by the authorities.

Although the decline in the correspondent banking relationships (CBRs) has stabilized, the situation seems to remain fragile with significantly higher transaction costs. The authorities will therefore need to continue monitoring banks' CBRs. We also strongly encourage the authorities to work towards improving the communication and information sharing between respondent and correspondent banks, achieving full compliance with AML/CFT and tax transparency standards, while improving governance of CBI programs.

Mr. Palei and Ms. Smirnova submitted the following statement:

We thank staff for the comprehensive analysis of economic developments in the ECCU and the insightful Selected Issues paper. In 2017 some of the ECCU economies were severely damaged by the natural disasters. These events remind once again of the necessity of building ex-ante disaster-resilient infrastructure. The economic activity in the ECCU is gradually recovering, but challenges remain in maintaining sustainable growth, fiscal and debt sustainability, as well as financial stability. We broadly concur with the staff appraisal and policy advice.

Strengthening public finance management in the ECCU is of utmost importance. The authorities need to reduce high levels of public debt. We welcome the recent slight decline in the level of public debt but note that it is still significantly above the regionally accepted target. We are concerned about the decline in revenues from citizenship-by-investment programs in some countries, as well as increases in current reconstruction-related expenditures. The underlying fiscal deficit is expected to increase to the level of about 3.5 percent of GDP. The immediate response should include both revenue and expenditure measures.

While we welcome the authorities' commitment to long-term fiscal prudence confirmed by Ms. Levonian, Ms. McKiernan, and Mr. Sylvester in their comprehensive BUFF statement, additional efforts are needs to ensure success. The medium-term fiscal planning is helpful in this regard, but we agree with staff that innovative institutional reforms should be considered without delay. The ECCU countries are exposed to large fiscal risks due to adverse external events. Staff rightly note that building ex-ante resilience to natural disasters and climate change should become one of the key policy priorities, and that resilience building should be integrated with macroeconomic planning.

Overall, we see merit in putting in place fiscal responsibility frameworks, as suggested by staff. At the same time, staff appropriately emphasized in the SIP that these frameworks should be well-tailored to each country's specific circumstances and allow the right balance between flexibility and control. We agree with the BUFF statement that international donor community may play a greater role in resilience building.

Resolving weaknesses in the financial sector is necessary for financial stability. We think that high and growing NPL ratio, which has risen to 15.2 percent for local banks, and even reached 24.8 percent for government-owned banks is worrisome and needs to be addressed urgently. Could staff comment on the reasons for low provisioning for NPLs?

We were surprised to know that foreign banks are leaving the region. Could staff comment on the reasons for such actions – is it a lack of demand, disaster risks or regulatory issues?

We encourage the authorities to work towards achieving full compliance with the AML/CFT standards and strengthening supervision and oversight of the financial sector, as this is most likely the factor that influences correspondent banking relationships.

We would also like to draw attention to the fact that the ECCB itself should become more transparent. The information on the ECCB website looks outdated, often by at least a year. Could staff comment on the ECCB's plans, if any, to improve transparency of its operations and communication policy?

Structural reforms are needed for overcoming a low-growth trap. We believe that the authorities should put more efforts into improving the business climate and expanding the opportunities for businesses in various industries. Such measures would help in decreasing poverty rates and creating more jobs. Given the importance of tourism for the ECCU economies, we support staff's advice to relax burdensome constraints, which may make prices of touristic products uncompetitive. We look forward to the analysis of technological innovations that are likely to help the authorities in accelerating inclusive growth and social developments in the region. We believe that well-tailored technological initiatives can support other structural reforms.

Mr. Villar and Mr. Rojas Ramirez submitted the following statement:

We welcome the report on the Caribbean Currency Union and thank Ms. Levonian, Ms. McKiernan, and Mr. Sylvester for their comprehensive buff statement.

We commend the ECCU for the adoption of a new paradigm in economic policy oriented to an ex-ante preparedness for confronting natural disasters and climate change effects. ECCU authorities are committed to implementing policies aiming at fostering inclusive growth, improving fiscal performance, and enhancing competitiveness.

On the fiscal front, we agree with staff on the need to enhance the regional fiscal policy by implementing strong fiscal anchors and adequate financing policies. The fiscal deficit is projected to increase and has important vulnerabilities associated with the limited growth potential of the region and oil and commodity prices external shocks. We also note that the fiscal stance is subject to strong procyclicality. We commend the authorities for their commitment to implement a robust fiscal framework that would both support the shift towards building resilience and help anchor the fiscal adjustment required to break the vicious cycle of high debt and low growth.

We see vulnerabilities in the banking system stemming from natural disasters, concerns on CBUI related loans and the reclassification of the debt-land-swap from financial to fixed-assets program. The indicators of capital adequacy are decreasing, while those of NPL are high. We note staff's concern regarding credit unions activities and financial soundness, as well as the exit of foreign banks from the region. We encourage the authorities to address risks and vulnerabilities chiefly on supervision and oversight of the bank and non-bank financial sectors and to advance in the resolution of their long-standing problems.

Mr. Agung and Mr. Srisongkram submitted the following statement:

We thank staff for the set of reports on the Eastern Caribbean Currency Union (ECCU) and Ms. Levonian, Ms. McKiernan, and Mr. Sylvester for their buff statement. The ongoing economic recovery from the impacts of Hurricane Irma and Maria in 2017 is indeed welcome. However, a worsening fiscal position and the region's susceptibility to natural disasters and external shocks continue to weigh on the longer-term outlook. To put ECCU economies on a more solid footing, it is imperative that the authorities continue to pursue common policy goals of achieving fiscal sustainability, building resilience against natural disasters, addressing weaknesses in the financial sector, and implementing structural reforms to support long-term growth. We broadly agree with the thrust of the staff report and offer the following comments for emphasis.

The fiscal framework should be strengthened to anchor the authorities' debt reduction targets earmarked for 2030. We welcome the authorities' progress in preparing medium-term fiscal frameworks consistent with the target. But given that public debt remains high in part due to pro-cyclical trends and impact of natural disasters, we tend to agree with staff that countries should consider adopting fiscal responsibility legislations, or at least incorporate the key elements in the medium-term framework. Formally adopting the ECCU debt target as the overarching anchor serves as a clear guidepost for shorter term adjustments towards the longer-term goals. Sharing common elements in the framework such as operational targets and sub-targets as well as precise escape clauses also facilitates a more structured policy formulation across member countries. That said, staff has rightly noted that these common elements should be further calibrated to best suit country-specific circumstance and needs. We view that these could, to extent, help secure the much-needed fiscal space for potential shocks as well as resilience expenditure going forward.

Building ex-ante resilience against natural disasters should be pursued where possible. Natural disasters present inherent risk for the ECCU both in terms of economic impacts and fiscal implications. Because these costs are likely to escalate with climate change, we agree with staff on the need to prioritize building ex-ante resilience by investing in resilient structures and increasing insurance coverage to effectively internalize disaster costs. However, we note from the scenario analysis that without sufficient concessional financing from the international community, the high costs of these endeavors would amount to large financing gaps that is inconsistent with the ECCU debt target. Given due diligence requirements of donor funds and ECCU's lackluster score in the public investment heatmap, can staff comment on how this would affect the prospects of obtaining concessional financing from donors? Has there been discussion on alternative approaches to improve resilience while also adhering to the ECCU public debt target?

We support staff's call for prompt actions to address financial sector weaknesses and safeguard financial stability. The banking sector faces challenges on many fronts that if left unresolved, could affect viability of the banking sector and becomes a fiscal burden. Fully operationalizing the ECAMC's mandate will be critical in clearing NPLs, but progress on this front has been slow. As noted by staff, failure to acquire a critical mass of NPLs by the July 2019 timeline could have significant fiscal implications. Could staff provide further clarification on the factor holding back NPL acquisition by the ECAMC and what the authorities could do to alleviate this? The authorities will also need to exercise stronger oversight on the non-bank financial sector which, while small, is growing rapidly and is exposed to spillover risks. In this regard, we are pleased to learn that the ECCB will be pressing ahead to implement strategies to address current and emerging risks in various areas identified in the report including NPL resolution, prudential standards, loss of correspondent banking relationships as well as supervision and regulations of non-banks.

Structural reforms are critical to enhance competitiveness and secure longer-term growth under the quasi-currency board arrangement. We note that while fiscal consolidation plans will help address the ECCU's weak external position, the large current account deficits and high unemployment reflects structural constraints. In this regard, we welcome the authorities' commitment to improving the ease of doing business, unlocking supply-side bottlenecks, and applying new technologies. To this end, we encourage the authorities to remain steadfast in their reform implementation and look forward to seeing progress on these fronts.

We wish the ECCU authorities success in their future endeavors.

Mr. Ronicle and Mr. Clark submitted the following statement:

We thank staff for the informative papers and Ms. Levonian, Ms. McKiernan, and Mr. Sylvester for their comprehensive buff statement. We welcome the positive economic progress and commend authorities' for the gradual economic recovery across the Eastern Caribbean Currency Union (ECCU) following the catastrophic impact of Hurricanes Irma and Maria in 2017. We note the positive recovery of the tourism sector and the important progress being made on banking sector reforms and commend the authorities' progress at reducing public debt levels.

Nonetheless, we agree with Staff's recommendations that although growth prospects remain favourable, there remain a number of downside risks, particularly in relation to high external deficits, low competitiveness, long standing weaknesses in the financial sector and the increasing risks of natural disasters. We therefore agree with staff's key recommendations and urge authorities to continue to make progress against the ECCU debt target, shift the focus from recovery from natural disasters to building ex-ante resilience, address longstanding problems in the banking sector and implement the necessary structural reforms and adjustments necessary to keep the region on a positive economic trajectory.

We strongly agree that current ex-ante buffers and insurance coverage in ECCU countries is insufficient given the increasing number of natural disasters. We agree with staffs' assessment that this will require a paradigm shift, a pivot from post-disaster recovery to ex-ante resilience to natural disasters and that this should be a policy priority. The growing intensity and frequency of natural disasters presents a significant risk to the economic outlook and this will require comprehensive ex-ante resilience strategies, fiscal sustainability and an increase in resilient infrastructure investment, contingent credit lines and insurance cover.

We are pleased to note the positive steps taken by authorities to enhance the resilience of the banking sector. With respect to the resolution of the insolvent banks in Anguilla, we are pleased to see progress but agree there remains uncertainty over the valuation of the exchanged assets and extent of fiscal costs borne by the government. We welcome the recently appointed independent valuator to value the pool of assets and encourage the quick resolution of any remaining non-performing loans (NPLs).

The continuing high levels of NPLs remain an issue that needs to be addressed quickly to reduce vulnerabilities in the banking sector and there is need to accelerate progress if there is to be no slippage to the initial timeline envisaged in the region's strategy. We agree with staff's recommendation for the ECCB to enforce a realistic plan to bring the banks' NPLs to a more sustainable level, require banks to submit credible, time-bound action plans to improve provisioning and resolve NPLs and closely monitor progress.

The continuing withdrawal of correspondent banking services (CBRs) and the exit of foreign banks remain a concern. We encourage authorities to work with the IMF and other providers of technical assistance, who can provide support to ECCU members to tackle the problem of CBRs, and agree with staffs' recommendations that the ECCU focus on assessing and mitigating risks of a potential decline in CBRs and the exit of foreign banks.

We welcome the continuing efforts being made across the region to reduce levels of public debt and to meet the ECCU debt target of 60 percent of GDP by 2030. However, we encourage staff and authorities to continue to prioritize robust fiscal responsibility to underpin the region's debt target. Whilst we agree with the need for country level flexibility to select the operational and institutional elements that are required we strongly encourage a credible medium term fiscal balance target anchored within the ECCU public debt target. This should be coupled with renewed vigour on the structural reform agenda to enhance the region's competitiveness.

Mr. Mahlinza and Mr. Tivane submitted the following statement:

The Eastern Caribbean Currency Union (ECCU) continues to make progress in recovering output losses and addressing social needs, following the catastrophic impact of Hurricanes Irma and Maria in 2017. The near-term growth outlook remains favorable, although subject to significant risks, including increasing intensity and frequency of climate-related shocks, escalating trade tensions and financial sector weaknesses. In this context, sustained efforts to buttress policy frameworks in member countries and build ex-ante resilience to natural disasters is critical to supporting sustainable and inclusive growth as well as achieving fiscal sustainability. We broadly concur with the staff appraisal and policy recommendations and thank Ms. Levonian, Ms. McKiernan, and Mr. Sylvester for their helpful buff helpful statement.

Strengthening fiscal policy frameworks is essential to ensuring debt sustainability and resilience-building. Important progress has been made by the ECCU authorities in confronting longstanding fiscal sustainability problems as highlighted in the Selected Issues Paper. Nonetheless, further fiscal consolidation efforts would be needed to ensure the attainment of ECCU debt target of 60 percent of GDP by 2030. In this regard, we agree with staff that enhancement of fiscal policy frameworks, supported to the extent feasible by Fiscal Responsibility Laws (FRL) tailored to country's circumstances, could help reduce debt vulnerabilities and policy pro-cyclicality. We also see merit in pursuing a fiscally sustainable strategy to building ex-ante resilience, through higher resilient public investments, which according to staff simulations could boost potential output growth by 3-11 percent in ECCU countries. Similarly, improving insurance coverage to include post-disaster reconstruction needs, reinforcing governance and integrating flows of the Citizenship-by-Investment (CBI) programs into the medium-term fiscal frameworks, would also help to moderate fiscal pressures.

Tackling remaining financial sector vulnerabilities requires sustained reform efforts going forward. We welcome the progress in advancing the regional financial sector reform agenda to support growth and build resilience. Notwithstanding, we encourage further efforts to buttress the regulatory environment, improve banking resolution and insolvency frameworks, and fortify capital buffers. More importantly, the priorities of the Eastern

Caribbean Central Bank (ECCB) should seek to: revamp measures aimed at reducing NPLs, particularly in majority government-owned banks; reinforce prudential standards on treatment of impaired assets; and enhance regulatory oversight and supervision to mitigate risks, especially of non-banking financial institutions. Could staff comment on the drivers of NPLs in majority government owned banks as well as provide a sectoral breakdown of these NPLs? Furthermore, steady efforts to fully operationalize the Eastern Caribbean Asset Management Company (ECAMC) would be helpful to tackle financial stability risks emanating predominantly from the non-bank financial sector.

In addition, we urge the authorities to implement strategies to minimize the risk of further declines in CBRs, by among other, strengthening and harmonizing the regulatory and AML/CFT oversight frameworks for banks and the non-bank financial institutions as well as implementing standardized regional approaches to risk-based supervision. We would welcome staff comments on possible strategies to address the issue of banks' size and scale, required to maintain CBR minimum transaction thresholds in ECCU countries.

Implementing structural reforms is paramount to easing competitiveness bottlenecks and boosting growth. The ECCU continues to face long-standing structural challenges to accelerate the pace of diversification and regional integration. Tackling these challenges requires concerted efforts by country authorities to, inter alia, gradually increase fiscal space for resilient infrastructure investments; implement policies to improve labor market flexibility; reduce skills mismatches and factor costs; and bolster private sector investment.

Finally, we take note of the progress being made by ECCU authorities to engage the international community to enhance institutional frameworks to support their resilience-building efforts. Given the increasing frequency and intensity of natural disasters, such engagement will become more important. In this respect, we would also encourage the Fund to continue to scale-up capacity building efforts in this region. We also support the authorities' request for further work on incorporating vulnerability as a criterion for official development assistance (ODA) accessibility.

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

Mr. Meyer and Ms. Fritsch submitted the following statement:

We thank staff for the set of comprehensive reports and Ms. Levonian, Ms. McKiernan, and Mr. Sylvester for their insightful buff statement. It is encouraging that the economies of the Eastern Caribbean Currency Union are recovering from the severe consequences of recent natural disasters. However, output still falls short of its potential. Furthermore, a variety of factors drag on the region's economic development, such as unsustainable debt dynamics and poor fiscal management, financial sector weaknesses, proneness to natural disasters and low competitiveness. We see a need to assertively address structural weaknesses by rapid reforms commensurate with the institutional capacities of ECCU member states as well as close cooperation amongst them.

Deteriorating fiscal balances coupled with elevated levels of public debt in many member states put medium-term fiscal sustainability at risk. Hence, we call on the authorities to accelerate their fiscal adjustment efforts. Yet, the fiscal framework in place has so far not proven to be successful in safeguarding stable public finances and in avoiding pro-cyclical fiscal policies. In addition, the high dependency on volatile revenues generated from citizenship-by-investment programs complicates fiscal planning and carries reputational risks. Sustained fiscal consolidation that ensures debt ratios reaching the agreed targets will likely remain elusive in the absence of a sound fiscal strategy that is anchored by credible fiscal rules. To this end, we take positive note of staff's work on core elements of such a fiscal framework for the region that sets the parameters for consolidation efforts on the national level. Precise escape clauses are needed to allow budgetary flexibility in case of natural disasters while preserving credibility. Nevertheless, we see merit in a stronger institutional framework to enforce compliance in normal times, including the need for a 'corrective arm' with clear procedures following non-compliance. Staff comments are welcome.

We strongly support staff's recommendation of a shift from post-disaster recovery to building ex-ante resilience. In combination with restoring fiscal sustainability and building contingency buffers, boosting resilient infrastructure and insurance protection should help contain some of the long-term costs of recoveries from natural disasters. While the focus of staff's report is on the climate-resilience of public investment, we would also be interested in the assessment of private investment being sufficiently "disaster-proof" (possibly based on anecdotal evidence)?

We welcome progress made in the area of regional financial sector reform, but further work is needed to address increasing weaknesses and vulnerabilities in the sector. We encourage the authorities to address the issue of low asset quality by fully operationalizing the asset management company ECAMC, accompanied with appropriate reforms in the area of insolvency and foreclosure to facilitate NPL recovery and actions to prevent the build-up of new NPLs. Considering the importance of a smoothly functioning international payments system, strategies to secure correspondent banking relationships are of paramount importance. To this end, any deficiencies in the AML/CFT framework on the regulatory level should be tackled without delay. Furthermore, we appreciate the authorities' commitment to upgrade and strengthen financial sector oversight, which seems to be particularly pressing in the non-bank financial sector.

Longstanding structural constraints continue to weigh on competitiveness, thus aggravating the persistence of long-lasting external imbalances. A key impediment for doing business are high costs of imported inputs, especially energy costs, and tariffs. Further steps on the union-level could explore ways of how to reduce the reliance on fossil fuels and to speed up the pace of regional integration, thus reducing transaction costs and fully harnessing the potential of a larger market. To ease the burden on businesses, improvements of the union's price competitiveness appear indispensable to increase growth. Given the commitment to uphold the quasi-currency board, the feasibility of such a strategy of internal devaluation will ultimately rest on credible fiscal consolidation and wage moderation.

We strongly encourage the authorities to consent to publication of the Staff report.

Mr. de Villeroché, Mr. Castets and Ms. Albert submitted the following statement:

We thank staff for their very comprehensive report and Ms. Levonian, Ms. McKiernan, and Mr. Sylvester for their informative buff statement. The ECCU economy suffered greatly from natural disasters in 2017. We recognize that tackling impact of climate change as well as external and fiscal vulnerabilities at the same time is particularly challenging. In this regard, we encourage the authorities to establish ex-ante resilience to natural disasters strategies in support to the long-term growth, along staff's recommendations. Moreover, we encourage the authorities to address longstanding weaknesses of the banking sector.

We broadly share staff's appraisal and would like to add the following comments:

Outlook

Gradual recovery is ongoing in most economies of the region (with a more difficult situation in Domenica) after 2017 hurricanes. However, the situation remains fragile, and the region is highly exposed to external risks. Less dynamic growth in the United States and normalization of monetary policy in coming years will likely adversely affect growth in the region. External and fiscal imbalances remain elevated and reducing them will be challenging as the region remains highly exposed to the occurrence of natural disasters. Situation on the labor market is also worrying with relatively high unemployment rates in most economies of the region.

Building ex ante resilience strategies

Beyond emergency responses, we share staff's views on the need for adapting physical and social infrastructures given the magnitude of natural disasters adverse impact on GDP. Can staff give some details about the collaboration with World Bank and other institutions regarding how such strategies should be designed? Moreover, improving business climate, notably through enhanced competition, a more leveled playing field and appropriate insolvency rules would contribute to enhanced private sector's participation. We also very much see the merit of a regional approach on those aspects, since it would contribute to further regional integration. High energy costs are also an obstacle to economic development in a context of high dependency on oil imports from Venezuela, especially through the Petrocaribe program. Considering the dependence towards Venezuela, could staff explain what are his projections regarding the future of the Petrocaribe program?

Fiscal policy

Managing debt remains a challenge, both on short and long-term basis. Public indebtedness levels remain high in ECCU countries (72 percent of GDP in 2017). In this regard, we concur with staff that adopting fiscal responsibility framework would be helpful to put public debt durably on a downward pace. Nonetheless, past fiscal frameworks have been abandoned, as recalled by staff in the dedicated selected issues paper. Therefore, ensuring that the fiscal rules are both flexible is crucial, and even more so as climate change will induce new weather shocks with the associated fiscal impacts. We therefore encourage the authorities to pay attention to the analytical work done by staff on the second generation of fiscal rules[1].

Staff estimates that resilience-enhancing costs would create a financing gap of 0.4-1.5 percent of GDP and that mobilizing additional financing is thus necessary. We wonder whether enhanced domestic resource mobilization could participate to cover this gap. We would appreciate if staff could comment on the estimated space to increase tax revenues.

Financial sector

Further efforts are needed to address financial weaknesses. As the level of NPL remains high (15.2 percent), we welcome ECCB efforts to actively tackle this weakness. Moreover, banking vulnerabilities remain important as foreign banks' presence is declining. Consequently, ensuring financial transparency through enhanced AML/CFT frameworks should help to restore confidence and avoid new CBRs withdrawals. Moreover, we support staff's recommendation as regard the strengthening of the insurance sector, which will also contribute to build ex-ante resilience against weather shocks.

The Acting Chair (Mr. Zhang) noted that since the last meeting in June 2017, two Category 5 hurricanes had hit the region, which was gradually recovering. While the conditions remained favorable, the risks were increasing. There were debt issues to contend with, as well as long-term weakness in the financial system, external competitiveness, and resilience to the natural disasters. Directors' gray statements called for building resilience in the economies, addressing financial sector weaknesses, and enhancing competitiveness through macro and structural reforms.

Mr. de Villeroché made the following statement:

We are in line with the introductory remarks. We see preventing financial troubles as of paramount importance. For example, hurricane clauses would have been instrumental in enhancing the resilience of Caribbean countries in cases of natural shocks.

We found Box 3 in the selected issues paper interesting, which says that to cover 99 percent of fiscal costs related to natural disasters, these countries will need coverage in the amount of 12 to 30 percent of GDP, and

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[1] See the staff discussion note of Caselli, Eyraud and all: "Second generation fiscal rules: balancing simplicity, flexibility and enforceability", April 2018.

the report provides useful views about the three insurance layers which are necessary to cover the cost of these natural catastrophes.

We can only encourage the staff to keep working on state-contingent debt instruments in close cooperation with other players. The Paris Club has a special interest in this as well, and we would like to have the staff's views about the relevance of issuing catastrophe (cat-) bonds at the regional level, which could be a promising way to go forward.

Looking at the fiscal framework, we would like to underline that finding the right balance will be challenging. In the coming years, the public debt levels should not decrease significantly, notably due to the high-level of investment. Against such a background, we note that the staff projects a continuous decline of revenue and grants in the coming years. Where structural efforts are essential, these countries will remain vulnerable to climate shocks, and we do not believe that the Fund has an appropriate fiscal framework to deal with this.

Turning finally to another issue, I would like to insist on the necessity to address quickly Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) concerns in the region to ensure transparency and financial stability. As recommended by the staff, the implementation of legislation designating the Eastern Caribbean Central Bank (ECCB) as the supervisory authority on this matter for banks in all country members would allow for further progress in this field.

Mr. De Lannoy made the following statement:

We welcome the staff's assessment, and we would like to emphasize the importance of the discussion on the impact of natural disasters on large parts of the membership and in particular on smaller states. As the report on the Eastern Caribbean Currency Union (ECCU) clearly illustrates, small states in the Caribbean are disproportionately impacted by natural disasters, more often than not as a result of climate and weather-related developments.

We support the comments made by Ms. Levonian and her colleagues in their buff statement. Building resilience to natural disasters and climate change is key to improving long-term prospects as the intensity and frequency of disasters are expected to increase as climate change intensifies.

We welcome the staff's technical work on the benefits of building ex ante resilience to natural disasters, including through resilient investment and insurance protection. Like Ms. Levonian, we believe that the selected issues paper provides a helpful application of the Fund's evolving framework for assessing the costs, benefits, and difficult tradeoffs of building ex ante resilience while having to meet immediate and pressing development needs in countries with little or no fiscal space. We appreciate the longer-term horizon taken into account by the staff in their policy advice.

We also agree that the international donor community should play a greater role in supporting resilience building in member states that are vulnerable to natural disasters by providing concessional financing and technical assistance (TA) for the implementation of these ex ante resilience strategies. In line with the points I made during the November meeting when we discussed the matter of resilience building more specifically, I welcome the increased focus on the impact of extreme weather events on the economic developments of the membership. We look forward to the forthcoming Board paper on building resilience in small states vulnerable to natural disasters, as well as the Board paper on the fiscal implications of climate change, both with regard to mitigation and adaptation. We stand ready to work with the staff to get the most out of this discussion.

Mr. Dairi made the following statement:

We thank Ms. Levonian for an interesting and informative buff statement and the staff for its excellent work on the ECCU, including the interesting papers on how to build resilience to natural disasters and how to build fiscal resilience. We broadly concur with the staff's assessment and appraisal. We also thank the staff for the response to our questions.

On the issue of the remunerated saving deposits, we note that the staff's proposal to reduce the interest rate on these deposits is a recurring theme in the staff's reports, even though the authorities actually reduced their interest rate of these deposits from 3 percent to 2 percent in 2015. Contrary to what the staff says, there does not seem to be any impact of the profitability on the country. After this decline, the interest rate spread and profitability both in terms of return on equity and return on assets have improved significantly since 2014. If the authorities had followed the staff's advice and had reduced the interest rate, and if this has had positive implications, why continue to repeat the same advice? The authorities are aware and concerned by the possible adverse impact on saving, especially for low-income households or the people who are not usually seen as investors of a big scale. I wonder if the staff could give credit and accountability to the authorities by recognizing that this has been very good; this has had good results. When we look at the interest rate, 2 percent is not significantly positive, it is barely seen as positive in real terms, so I would appreciate the staff's comments on this issue.

Ms. Liu made the following statement:

We would like to ask two questions. First, the real effective exchange rate of the currency was overvalued by about 5.9 percent in 2017. What effect would this overvaluation have on the region's economy, and what responses are recommended to alleviate some negative effects of the overvaluation?

Second, since the East Caribbean dollar is pegged to the U.S. dollar, we welcome the staff's comments on the effect of the U.S. dollar appreciation on the region's price level, asset valuation, and asset quality, as well as financial stability. We would also like to know whether the labor market in this region is flexible enough to allow for wage adjustments to partially offset currency appreciation.

Mr. Saito made the following statement:

We thank the staff for the comprehensive report and Ms. Levonian, Ms. McKiernan, and Mr. Sylvester for their informative statement. I would like to ask one specific question on the financial sector policy. Given the persistently high NPLs, we agree with the staff that speeding up the process for addressing NPLs is imperative. We also agree with the staff that the direct plan to reduce NPLs based on time-bound action plans by banks should be introduced. In this context, to expedite the NPL resolution process, operationalizing the Eastern Caribbean Asset Management Company (ECAMC) is important. At the same time, we are a bit puzzled by the staff's recommendation that the ECAMC operation should be down-scaled to receivership or wound up, despite the fact that the pace of the process has improved with the strengthened capacity. I would like the staff to elaborate on the background of this recommendation to downsize the ECAMC and its impact on the banks' plan for NPL reduction.

Mr. Mahlinza supported the authorities' call for further work on incorporating vulnerability as a criterion for official development assistance (ODA). He underscored the need for concerted efforts by the international community to support member countries' resilience-building efforts. He called on the Fund to continue to scale up its capacity-development efforts in this region.

Ms. Mohammed made the following statement:

Our chair also represents small island states and is concerned about enhancing the Fund's role in supporting these vulnerable states and building resilience, including to natural disasters. We issued a gray statement, and I would like to make a few additional comments. We thank the staff for the comprehensive report and Ms. Levonian, Ms. McKiernan, and Mr. Sylvester for the insightful buff statement.

We welcome the gradual resumption of growth in the countries of the ECCU in the wake of the devastating impact of the hurricanes Irma and Maria in 2017. We welcome the authorities' progress on the medium-term fiscal framework consistent with the ECCU's target of achieving 60 percent of GDP by 2030. The inclusion of fiscal adjustment measures, medium-term deficit targets, and interim public debt targets for 2020 and 2030 is encouraging, and the authorities are urged to implement measures to achieve these targets. Moreover, we take notice of the disparity in the projected growth rates, with the authorities being more optimistic and estimating growth at around 3 percent against the staff's projection of 2.2 percent.

It is our understanding that countries such as Grenada, St. Kits and Nevis, and St. Lucia, to name a few, have recorded slightly higher visitor arrivals in 2018. Is the staff aware of the updated 2018 tourist arrival data, and would the broad prospects of the ECCU be reevaluated to consider the more encouraging tourism data? Furthermore, ECCU countries are ranked among the most natural disaster-prone countries worldwide; and like many other small and vulnerable islands and developing states, the impact of natural disasters has contributed to high indebtedness and stymied growth. In this regard, we reiterate that ECCU economies can potentially benefit from adopting ex ante resilience to natural disasters and climate change.

Support from the international community is also essential in building resilience. That being said, we join with Mr. Gokarn and Mr. Mahlinza in supporting the authorities' request for incorporating vulnerability as a criterion for ODA accessibility. With these remarks, we wish the ECCU authorities success in their future endeavors.

Ms. Park made the following statement:

First, as we highlighted in the joint gray statement, we agree that there are benefits to shifting spending from post-disaster recovery toward building ex ante resilience, and we also tend to agree with the authorities that it can be tricky to balance that with other development needs and also the need to put public finances on a sustainable footing. As the staff notes, concessional financing from the international community can help fill this gap, but there are upfront administrative requirements to make, and countries in our constituency have also had similar experiences, and we see a role for the Fund here and welcome the work that is being done by the staff to support the countries in the ECCU with reforms that can enhance access to grants. This is an important thing for the Fund to be doing.

Second, we echo the observation made by Ms. Pollard and Ms. Svenstrup that there could have been more discussion of the merits of the exchange rate regime given the fiscal consolidation planned and the need to bolster competitiveness. It is nice to see all the options on the table and being discussed, although we recognize that there is a need for care in presenting on these issues. I had one question on that. Is the staff satisfied that the current benefits of the currency board arrangement outweigh the costs, and is that something that is being discussed as part of the ongoing process?

Mr. Morales made the following statement:

We believe that the staff report and the selected issues papers focus on the most pressing macro challenges facing the ECCU and illustrate with clarity the magnitude of the effort that is required to address them.

Decisive actions are needed to modify the fiscal frameworks and adapt them to the rising risks associated with climate change and inadequate investment by building resilience and helping anchor fiscal adjustment to reverse procyclicality in fiscal policy in the medium term.

Economic recovery provides an opportunity to overhaul the fiscal framework in the region, and we encourage the authorities to take this opportunity and the staff to remain engaged with the authorities to guide these efforts. However, the lack of progress in addressing longstanding issues in the financial sector is conspiring against a more dynamic economic activity and a better perception of risks because it perpetuates an environment of mistrust in financial intermediation.

The staff reports progress in financial regulation, financial supervision, creation of credit growth, among other areas of progress. However, we are concerned about the lack of progress in solving longstanding problems. In particular, the uncertainty surrounding funding for the acquisition of existing NPLs is an imminent concern. In this regard, we ask the staff how likely it is that new insolvency and foreclosure loss and the easing of restrictions on non-citizen property ownership will materialize in the foreseeable future?

Mr. Sigureirsson made the following statement:

I found the staff's analysis on the price competitiveness particularly useful. I myself come from a country that relies heavily on tourism.

The Week at the Beach index is a great example of Fund staff thinking outside the box and creating something new that could complement the more traditional analysis, but I wonder about the broader communication plan for this. I am new here, and this is the first time I have seen it, and I wonder about the likelihood that prospective travelers and companies would start using this metric as something to decide on or to sell vacation destinations and whether this is a concern or not. I am not concerned that my country, Iceland, will land on this list.

The staff representative from the Western Hemisphere Department (Ms. Muñoz), in response to questions and comments from Executive Directors, made the following statement:[2]

We are grateful to the Executive Directors for the insightful comments and questions.

We have responded in writing to all the questions raised in the gray statements by Directors, including those pertaining to the financial sector, fiscal policy, and resilience to natural disasters. Therefore, during my intervention, I would like to comment briefly on staff's strategy to build ex-ante resilience to natural disasters in the ECCU and the way forward and also the questions that were raised at the Board.

The ECCU currently invests little in ex-ante resilience-building and relies heavily on recovery efforts following natural disasters. This is because of a lack of fiscal space; limited private financing owing to low profitability; a predominance of financing by the international community focusing on mitigation—with resources for adaptation to climate change falling well short of the needs; and finally, demanding administrative requirements and low capacity that pose obstacles to the ability of small island economies in the ECCU to secure financing from climate funds for resilient investment. The

[2] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

political economy angle also poses a challenge, as upfront costs for resilience investment are met typically with long-term payoffs. All these factors combine to create a vicious circle in which inadequate preparedness for natural disasters and weak fiscal performance reinforce each other.

The staff report proposed shifting the paradigm from post-disaster recovery to building ex ante resilience within an appropriate underlying macro-fiscal framework and the support of the international community. As illustrated in the consultation reports, ex ante resilience building will yield substantial long-term benefits and impose upfront costs.

The new paradigm will include adequate resilience investment and insurance protection, embedded in a robust fiscal framework. Investment in resilient infrastructure would increase growth in the long run, reduce expected losses from natural disasters and outward migration, and raise returns to private investment. Insurance protection, on the other hand, would ensure liquidity for relief and reconstruction, while protecting public finances. The adoption of robust fiscal responsibility frameworks—anchored by the debt objective and supported by appropriately-tailored operational medium-term fiscal balance targets and escape clauses to allow flexibility to external shocks—would both support the shift toward building resilience ex-ante and help anchor the fiscal adjustment to break the vicious cycle of high debt and low growth.

Therefore, we propose a full integration of resilient investment and insurance mechanisms and fiscal responsibility frameworks to help the ECCU achieve a sustainable fiscal position, while improving resilience to natural disasters. In addition to sustainable fiscal policies, staff's recommendations include the necessary financial and structural adjustments consistent with the exchange rate regime that the ECCU members have chosen to adopt and pursue. Please see references about the regime in the key issues, external assessment, and the staff appraisal in the staff report. I will come back to this.

A strong resilience strategy and credible macroeconomic frameworks should, in turn, help catalyze concessional financing from the international community, including climate funds, to cover the upfront costs of building resilience ex ante. It is against this backdrop that at the recent high-level conference on building resilience in the Caribbean last November, hosted by the Fund, the World Bank, and the Inter-American Development Bank, the Managing Director called for a "shift in paradigm" aimed at placing greater emphasis on investing in creating resilience to natural disasters, supported by the international community.

What is the way forward? If there is sufficient buy-in across the major stakeholders (in addition to the countries, other international financial institutions, and development partners) on the proposed strategy, staff will identify two pilot countries to take the initiative forward. Further details will be elaborated in the forthcoming Board paper on building resilience in countries vulnerable to natural disasters.

I would like to address the questions that were raised in the Board. I will start with the last one. I thank Ms. Park for flagging the issues about the merit of exchange rate regimes that was addressed in one gray, and now it has been mentioned again at the 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, the necessary macro policy adjustments needed to support the given exchange rate framework and the structural policies needed to ensure external sustainability. This is in line with the guidance note for bilateral surveillance, and Ms. Goodman will speak more about it.

The authorities do not consider changing the exchange rate to be a current policy option. That is why staff's recommendations include necessary fiscal, financial, and structural policy adjustments consistent with the given exchange rate. The lack of an adequate lender of last resort highlights the importance of fiscal discipline and of a resilient financial sector, while the fixed exchange rate imposes real economy adjustments to external shocks, underscoring the key role of structural policies.

This year, we have gone a step forward and proposed a robust fiscal framework, flexible enough to accommodate the frequent external shocks. Our policy advice has also focused on financial and structural issues to resolve weaknesses in the financial sector and address competitiveness and productivity, cutting across all three main topics of this consultation.

I would like to address the question about cost and benefits, and this was discussed at length in the last year's Board meeting, so I will mention more or less the same things. The exchange rate peg leaves little room for monetary policy, which is likely not to be effective. The strength of the current exchange rate arrangement, which has been in place since 1975, is the ability to provide price stability and a strong, long-term commitment to the fixed exchange rate, while the reserve cover requirement puts a strong discipline on central bank credit. The cost is the limited ability of the central bank to provide liquidity support in case of a systemic crisis. A change to a more flexible exchange rate will have to weigh the benefits of a devaluation and the risk of undermining confidence in an arrangement that provided stability for more than 40 years.

All we can say is that the benefits of a devaluation are likely limited given that expenditure switching effects of a devaluation are constrained in this case by the lack of domestic alternatives to imports. There is also a limited downward wage flexibility given migration, which is quite large in these countries, and also the majority of the ECCU countries' debt is denominated in foreign currency and owed to official bilateral and multilateral creditors.

Turning to the first question on cat bonds and the SCDIs, we are working with the World Bank to develop more instruments in order to help the countries have less impact on their debt while they are facing a natural disaster. There are two proposals that we are working on with our colleagues in the World Bank, which were described in detail during the conference. The other instrument is the cat-bonds, and the question is the extent to which it could be regional.

We are working on three options, so we are making progress, but we still do not have the last proposal to give to the Board. There will be more elaboration on the Board paper, but we are confident that we can work on this because this is something that will benefit all these countries as natural disasters are becoming more frequent and intense.

On the question on the minimum saving rate (MSR), we were happy when the authorities reduced the MSR from 4 to 3, but we also believe the MSR has a negative effect on the banking sector—given the level of profitability and the weakness of the banking sector—and we believe that is not justified to keep it at 2. We advised eliminating it. That is the same advice that we have been giving—to phase it out progressively—and we are still calling for that. We believe that deeper regional financial markets and a healthier private sector will provide new investment opportunities. Both of these objectives are hampered by the existence of the floor on deposit rates, which discourages financial market development and makes credit access more difficult and more expensive for small firms.

There are other measures more appropriately encourage private savings and support incomes like robust social safety nets, financial education, and appropriate fiscal tools. We believe that these measures will be more appropriate to encourage private savings, which is an objective the authorities have, and a good one.

On the effects of the overvaluation of the real exchange rate, Annex 6 on competitiveness illustrates that it has an effect on tourism. What we discovered when we were doing that—which also explains the Week-At-the Beach Index—is that tourism is more expensive in the ECCU, so there is evidence that the price is an important element in the decline in tourist arrivals. This is one of the reasons we are advocating for measures that will reduce the overvaluation of the real effective exchange rate.

On labor, our main premise is that there is a high structural unemployment that has to be tackled, and also skill mismatches. This is important in those countries where we need to make sure that people have the appropriate skills. We also found a weak link between productivity and wages.

On the management in the ECAMC, we want them to pursue and make effective the management company, and we have given a significant amount of TA continuously in order to do that because we thought it was a way to reduce NPLs. However, progress has been slow, and we have to give some deadlines. The next deadline is July 2019, and by that time we want the management company to have bought all the NPLs that are available. We are encouraged by recent progress that was made when one of the consultants was hired, but there are many things that remain to be done by the deadline. If this deadline is not met, given that we have been working with them for years, then it will have to be downscaled, but we hope the deadline is met.

The authorities are working on new insolvency and foreclosure laws. This is more of a harmonization because they are more flexible and effective in Grenada but less in the other countries. We hope that progress is made, and we are encouraging the authorities to do it.

The staff representative from the Strategy, Policy, and Review Department (Ms. Goodman), in response to questions and comments from Executive Directors, made the following statement:

I will pick up on the exchange rate advice and the question on the Week at the Beach Index. Just to confirm, in the context of Article IV surveillance, the staff should assess the adequacy of the de facto exchange rate regime for maintaining stability and then examine the consistency of the exchange rate regime with the policy mix considering the appropriateness of the fiscal stance, monetary objectives, and the financial sector regulatory framework. Ms. Muñoz has described very clearly in the main elements of the staff's advice in that context, and I would note that in the staff appraisal, given the authorities' commitment to the peg, the staff emphasizes the finding that the external position is weaker than implied by medium-term fundamentals and considers that the progress in these policy areas is necessary to support the authorities' choice of an exchange rate.

On the Week at the Beach Index, there was a working paper that was published in 2014 where this idea was first publicized. It has also been discussed at the Analytical Corner, which is a public session in one of the Spring or Annual Meetings. We find it a useful way to look at a deeper economic concept of competitiveness but using a real-life example. I agree that it is something that can complement the staff's analysis, but I hope that we have been clear about the nature of its construction and what it seeks to do. It does not intend to be something broader than that, but the staff has found it helpful in the team's work not only in this case but also in other cases as a way of bringing a granularity to their understanding of these deeper concepts of competitiveness.

Ms. Levonian made the following statement:

I want to start by thanking the staff for the report and the selected issues paper, which we believe capture the challenges and opportunities facing the ECCU region. I thank fellow Directors for their candid and constructive comments. I will relay them to our authorities faithfully. We issued a buff statement highlighting our views, but I want to intervene and emphasize a few points.

First, economic growth in the ECCU is rebounding following the major setbacks of the 2017 hurricane season. My authorities are satisfied that the ECCU region is making progress toward its long-term vision and that they are pursuing the right policies and reforms. Authorities share Directors' concerns about the significant risk and vulnerabilities that continue to exist—low growth and competitiveness, still-high debt levels, fiscal issues, financial sector weakness, and high vulnerability to economic and non-economic shocks. The authorities remain resolute in their commitment to tackle these risks and challenges supported by the international financial community and donor partners.

Regarding a shift in the paradigm to ex ante resilience building in response to natural disasters and climate change, my authorities embrace the need for this shift and welcome the Fund's focus in this critical area. They greatly appreciated the High-Level Conference on this topic last November, and they also appreciate the staff's technical work in this Article IV consultation.

Second, my authorities are appreciative of the support from several Directors in calling for a step-up in international assistance to complement their resilience-building efforts, including through easier and more access to concessional financing and incorporation of vulnerability as a criterion for ODA eligibility.

My authorities are committed to achieving their debt target of 60 percent of GDP by 2030. They also understand the need for a clear and determined strategy to get them there. As highlighted in the buff statement, they have prepared medium-term fiscal frameworks and will continue to monitor these frameworks and take action as necessary. They also broadly agree that a more robust fiscal framework will support this objective. My authorities will continue to take steps to further strengthen the regional fiscal framework.

On financial sector reforms, my authorities appreciate the comments by many Directors on the progress made in this area, as well as the need for further timely action. The authorities will continue to prioritize reforms in this area, including to address high NPLs, access to credit, and regulatory and supervisory gaps. My authorities will continue to strengthen the AML/CFT framework as well.

With respect to the threat of CBR losses, the authorities welcome the call by several Directors for the Fund and other partners to continue to support the region in finding concrete solutions to the CBR issue.

In closing, I thank the mission chief, Ms. Munoz, and her team for their excellent work and engagement with the authorities.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the favorable short-term outlook supported by benign external conditions and the recovery from natural disasters. They noted, however, significant risks from the ECCU's exposure to global developments, natural disasters that are increasing in frequency and intensity, a further decline of correspondent banking relationships, and lingering problems in the financial sector. Directors encouraged policy actions to address fiscal and external vulnerabilities, build ex-ante resilience to natural disasters, resolve weaknesses in the financial sector, and improve competitiveness and sustainable growth.

Directors noted that, despite an overall decline in public debt, the 2030 regional benchmark of 60 percent of GDP remains elusive for most countries. This underscores the need for sustained fiscal consolidation and further enhancing revenue mobilization. Directors recommended the adoption of robust fiscal responsibility frameworks anchored by the debt objective and supported by appropriately-tailored operational medium-term fiscal balance targets and escape clauses to allow flexibility. Such frameworks would help secure fiscal sustainability, reduce pro-cyclical policy bias, break the vicious cycle between high debt and low growth, and build much-needed fiscal space for high-priority spending, including to bolster resilience to natural disasters. In this context, Directors took positive note that most ECCU countries have prepared medium-term fiscal frameworks and are weighing the merits of adopting fiscal responsibility legislation.

Directors concurred that building ex-ante resilience to climate change and natural disasters is a key priority. They agreed that shifting the focus from post-disaster recovery to ex-ante preparedness can yield substantial benefits in the long term. Investment in resilient infrastructure would reduce damages and losses from disasters, promote private investment, and reduce outward migration. Similarly, building financial resilience, notably through insurance, would ensure liquidity for relief and reconstruction, while protecting public finances from the impact of disasters. While these policies will impose upfront costs, Directors noted that coherent and credible resilience-building strategies, buttressed by efforts to consolidate the fiscal position and enhance public investment management, will help catalyze the necessary concessional financing from the international community, including climate funds.

Directors welcomed progress on the regional financial sector agenda but noted that persistent weaknesses and emerging risks require further timely action. They highlighted the need to reduce bank nonperforming loans, including by fully operationalizing the Eastern Caribbean Asset Management Company, enhancing the foreclosure and insolvency frameworks, and ensuring enforcement of prudential standards. Directors also underscored the need to reduce risks of further withdrawals of correspondent banking relationships, de-risking of downstream financial institutions by banks, and exit of foreign banks. They stressed that ensuring compliance with AML/CFT standards will be crucial in this regard. Directors also called for expeditiously finalizing harmonized legislation for the non-bank financial sector including credit unions, and an effective consolidation of regional financial sector oversight. Continuing to strengthen the governance of Citizenship-By-Investment programs will also be important.

In addition to fiscal consolidation, Directors underlined the importance of structural reforms to improve the competitiveness of the ECCU in the context of the quasi-currency board. They underscored the need to reduce the high costs of doing business, and the costs of energy, transportation, and tariffs; improve public sector efficiency; and address high structural unemployment. Further regional integration would help capture economies of scale and reduce costs.

It is expected that the next discussion of ECCU common policies will be held on the 12-month cycle. Directors agreed that the views they expressed today will form part of their discussions in the context of the Article IV consultations with individual ECCU members that will take place until the next Board discussion of ECCU common policies.

APPROVAL: April 9, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Fiscal policies

1. ***Can staff indicate whether they have provided advice to the individual country authorities on the implementation of specific policies to achieve this target?***

- Given that one of the main themes of the consultation focused on fiscal responsibility frameworks, the mission did engage in some discussions and advice on tailoring specific fiscal responsibility frameworks to the needs of individual countries along the lines of the options presented in Box 1 of the staff report. Having said that, given the nature and mandate of the regional consultation mission, the ECCU mission did not provide specific/detailed advice on revenue and expenditure policies to the individual country members. The latter issues are in the purview of the individual member Article IV consultations in the ECCU, which cover those issues in more detail. In this context, the mission closely coordinated with individual teams of ECCU countries with respect to updating the projections and policy scenarios that are presented in the report.

2. **In this regard, we are happy to note that initial drafts of medium-term fiscal frameworks have been prepared by six ECCU members to help guide the achievement of the 60 percent of GDP target.** ***Could staff offer some preliminary assessment of these frameworks?***

3. ***The staff report states that initial drafts were under preparation at the time of the mission and we note from the BUFF statement that progress has been made. We would appreciate an updated assessment from staff on the new medium-term frameworks.***

- As reported in footnote 7 of the staff report, the medium-term frameworks had not been finalized at the time of the mission, and draft frameworks were not shared with staff. Hence, staff was only able to discuss selectively those aspects of the frameworks that were highlighted by the policymakers in response to staff questions. Since the consultation, no additional information was published or provided to staff. In this light, we believe it is premature to engage in specific assessments, as this should be undertaken by individual country teams based on detailed analysis of each framework when it is made available to us.

4. **While we agree with the proposed elements of the fiscal frameworks laid out in the Box 1, including debt anchor, operational target, and escape clauses, we**

would like to ask a few questions. ***First, staff mentions that the operational targets should be calibrated on a country-specific basis. Could staff describe specific factors which should be considered to calibrate the operational targets? Second, compliance partly depends on reputational costs in breaching the operational target. Are such reputational costs expected to be large in ECCU countries when taking their political situation and public opinion into account?***

- On the first question, there are several specific factors that could result in a differentiation of the operational targets, whether regarding their choice or numerical calibration. Some of the main ones include: (i) different expected long-term growth rates (with lower growth generally requiring a more ambitious budget balance target to achieve the same debt objective); (ii) different size and volatility of the public interest bill (which could impact a choice between a primary and overall budget balance targets and correspondingly their calibration); (iii) different average severity and fiscal impact of natural disasters (and shocks more generally), which could map into differences with respect to the desirable debt level—and the corresponding calibration of the operational target to achieve it; and (iv) different country preferences with respect to the size of government, which could impact a choice between budget balance-based and expenditure-based operational target. Most of these issues were illustrated in the SIP on fiscal responsibility frameworks.

- On the second question, reputation costs are hard to estimate since the interaction of political economy and public opinion-related factors tends to be specific to particular situations. In any case, the reputational stakes for policymakers could be increased through focused institutional progress, for example by building an independent fiscal council with an extensive mandate, and by improving fiscal accounting and transparency to achieve a high level of compliance.

5. In this context, the authorities' commitment to closely monitor the individual country plans and take actions as necessary in meeting the debt targets, indicated in the buff Statement, is reassuring. ***Staff comments are welcome on the specific policies and mechanisms to increase regional coordination to reduce fiscal costs, preserve revenue and meet the debt target.***

- Given the primacy of national sovereignty considerations in the ECCU and significant scope for improvement in national fiscal policies, this consultation has prioritized a bottom-up approach to fiscal responsibility frameworks to show a practical roadmap for region-wide policy progress. We however agree that regional policies and mechanisms at the supranational level could usefully complement this progress. Some discussion of those mechanisms is contained in the SIP on fiscal responsibility frameworks (particularly bullet 3 under ¶ 25 of the SIP), including: (i) supranational (or peer) review of fiscal policies; (ii) supporting role of the ECCB and

OECS on fiscal responsibility law issues, (iii) further harmonization of classification and accounting procedures, and (iv) adoption of a common strategy to natural disasters and their financing.

- We believe that additional research on the scope of fiscal policy coordination could be useful and would consider undertaking a systematic analysis of some of these options in future consultations. However, practical progress in this area would hinge on careful progress in building country-level ownership for fiscal policy coordination, which is uncertain at this stage.

6. **In this regard, further efforts towards greater revenue mobilization beyond the CBI programs and periodic revenue windfalls will be necessary. We also recognize the daunting challenge of enlarging the tax base in most countries whose economies are not sufficiently diversified.** ***We would appreciate staff's elaboration on what the member countries could do collectively to boost revenue in the short term in such a context.***

- While generalizations are tricky and such fiscal advice should be country-specific, the key common themes on revenue mobilization are: (i) limiting tax exemptions (for example, such steps could include remaining VAT exemptions or zero-rating on transportation, residential property sales, betting and gaming, and food and fuel that are in effect in several ECCU countries); also budgetary ceilings on the amount of "discretionary" tax exemptions could be considered; (ii) carbon fuel taxation (this was recommended by the CCPA pilot for St. Lucia and is likely a desirable measure for most, if not all, other ECCU countries); (iii) property taxation (often due to gaps in valuation assessments or collection practices); (iv) increasing social contribution rates to ensure social security fund sustainability in light of projected population aging projected in all ECCU countries; and (v) improved collection of tax arrears (e.g., clearly a significant priority in Grenada given their high stock, but likely an issue in most other countries).

7. **To this end, we take positive note of staff's work on core elements of such a fiscal framework for the region that sets the parameters for consolidation efforts on the national level. Precise escape clauses are needed to allow budgetary flexibility in case of natural disasters while preserving credibility. Nevertheless, we see merit in a stronger institutional framework to enforce compliance in normal times, including the need for a 'corrective arm' with clear procedures following non-compliance.** ***Staff comments are welcome.***

- We agree that enforcing compliance in normal times would be a key issue and clear procedures for non-compliers are needed. At the same time, we believe that these efforts should focus on upgrading national procedures and institutions, while a mechanism similar to EU's supranational "corrective arm" would have limited effectiveness in the ECCU, in part because (i) the capacity and mandate of ECCU's supranational institutions is significantly below that of the EU in matters of fiscal policy; and (ii) recent FAD analysis of fiscal rules suggests substantial problems with incentives in enforcing corrective-arm-like procedures (see SDN 18/04).

8. **High energy costs are also an obstacle to economic development in a context of high dependency on oil imports from Venezuela, especially through the Petrocaribe program.** ***Considering the dependence towards Venezuela, could staff explain what are his projections regarding the future of the Petrocaribe program?***

- The impact of and projections under the Petrocaribe program are highly country-specific (for example, the importance of Petrocaribe flows in recent years is relatively larger in St. Vincent and the Grenadines and Dominica, more moderate in Grenada and Antigua and Barbuda, with no or very low impact in St. Lucia and St. Kitts and Nevis). For the most part, staff's projections of the Petrocaribe flows internalize the situation of 2018, when they were significantly scaled down relative to 2014-17 levels across the ECCU. This would make staff's projections more conservative. A complete cessation of Petrocaribe-related petroleum deliveries could have both external (due to higher payments for current deliveries on market terms) and fiscal impact (due to cessation a flow of financing of certain social programs). However, this impact would be moderated by the recent downward revision of the future global oil price projections and would not be large compared to staff's scenarios in the staff report.

9. **Staff estimates that resilience-enhancing costs would create a financing gap of 0.4-1.5 percent of GDP and that mobilizing additional financing is thus necessary. We wonder whether enhanced domestic resource mobilization could participate to cover this gap.** ***We would appreciate if staff could comment on the estimated space to increase tax revenues.***

- There is scope for enhanced tax revenues compared to current levels, including by limiting tax exemptions, introducing carbon taxation, improving property taxation, and collecting tax arrears. However, for the most part, staff's "adjustment scenarios" that are imbedded in the projections have already incorporated such measures. Therefore, they would not substitute for the needed concessional financing to accommodate both building resilience and reaching the 60 percent of GDP debt target**.**

Resilience to natural disasters

10. ***In the same vein, we missed in the Informational Annex the traditional section on relations with the World Bank Group and we would appreciate staff elaborations***

on the role of the World Bank in helping the region address natural disaster-related issues

- The World Bank has historically played a key role in helping countries build resilience to climate change and natural disasters in the region. Recently, it has initiated several projects in Dominica, Grenada, Saint Lucia, and Saint Vincent and the Grenadines, focused on making infrastructure more resilient to extreme weather events and natural hazards and improving government capacity to monitor, prepare for, and finance climate risks. It is discussing with some ECCU countries a contingency line of credit (Catastrophe Deferred Drawdown Option) that would provide immediate liquidity after disasters. It advises countries on disaster risk management and financing, with two reports been released for Grenada and St. Lucia. It has joined the IMF in preparing the Climate Change Policy Assessment pilot for St. Lucia and the upcoming one for Grenada. Jointly with the IMF and the IDB, it organized the High-Level Conference on Building Resilience to Disasters and Climate Change in the Caribbean, held at IMF HQ on November 26, 2018. A summary of its activity in the Caribbean. [3]

11. We support staff recommendations in this area, including building resilient infrastructure,—which may be costly and would call for international support, including easier access to the climate funds, to avoid undermining medium-term fiscal sustainability or reducing other key infrastructure investment and social programs—and developing a layered insurance coverage that includes a saving fund for self-insurance, access to the regional catastrophe risk insurance facility, and issuance of catastrophe bonds depending on the severity of the disaster. ***Staff may wish to indicate how the cost of such insurance would be shared between the public and the private sector.***

- The insurance costs in the model simulations are only for the government. The cost to the private sector therefore is the opportunity cost of foregone government services and/or tax revenues the government would need to allocate to insurance costs.

12. The effective implementation of the proposal to engineer a three-layer insurance framework to internalize the costs of natural disasters could also be affected by the budgetary constraints. This situation underscores the need for enhanced regional financing mechanisms and the increased support from the international donor community to complement ex-ante resilient building efforts by governments in the currency union. ***Staff comments are welcome.***

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[3] https://www.worldbank.org/en/country/caribbean/overview.

- The costs of resilient investment and insurance are supportive of fiscal sustainability as these imply internalization of expected costs of natural disasters in the fiscal frameworks. Resilient investment improves economic performance in the long-term, reducing expected damages and insurance costs. Given high costs of insurance, which are about twice the value of expected insurance payouts in case of a natural disaster, a financing gap emerges that could be covered by the international community to level government's disincentives to purchase insurance due to its high cost. For example, in the case of Dominica, which was devastated by hurricane Maria in 2017, the government of Canada is currently providing grant financing for CCRIF coverage for the next two years.

- Regional institutions are creating administrative units with accreditation to access donor financing, supporting countries meet administrative requirements. Our analysis also shows that in the long term when structures become more resilient, insurance coverage could decline to about 1.4 of the current needs.

13. **We support the authorities' call for incorporating vulnerability as a criterion for official development assistance (ODA) accessibility.** ***Could staff comment on any factors that prevent this request from being met? At the same time, we encourage the authorities to continue with advancing due diligence requirements of donor funds).***

- The determination of countries eligible to receive official development assistance is made by the OECD Development Assistance Committee; staff does not have a view on the merits of the criteria used by the DAC in making its determination.

- World Bank staff have recently conducted an analysis of the merits of developing an index of vulnerability that could serve as an input for determining access to Bank concessional resources (SMALL STATES: VULNERABILITY AND CONCESSIONAL FINANCE, Technical Note, OPCS, July 2018). A key conclusion is that "developing a new vulnerability index to access concessional resources would be impractical and not necessarily beneficial for all small states."

14. **We recognize that resilient investment for natural disasters can enhance long-term macroeconomic growth but at the same time are aware of the increased near-term fiscal costs that might open a transitional financing gap.** ***We would welcome staff's comments on what possible incentives could be considered to favor long-term investment.***

- ECCU countries agree on the importance of resilient investment given their own experience with human loss and destruction after natural disasters. This experience is the main incentive to pursue costly resilient investment, as confirmed by country authorities during the consultation. They are also mindful of fiscal sustainability challenges and on the need to enhance access to grants.

15. As the report has pointed out, concessional financing from the international community, including climate funds, is a key option. *Could staff share with us about the overall volume and accessibility of such funds?*

- Access to climate funds has been difficult given significant administrative requirements for qualification and disbursement and the human resource and capacity constraints typical of small states. The overall amount of such funds is subject to significant uncertainty. The fragmentation of financing sources hampers the consistency and quality of data. The 2016 Small States paper (IMF, Small States' Resilience to Natural Disasters and Climate Change—Role for the IMF, 2016, p. 44) estimates that overall climate financing to small developing states was less than US$1 billion in 2014, of which only US$140 million from climate funds. The funds available to adapt to climate change, however, are even smaller because the amounts quoted above include finance for climate change mitigation (reduction of carbon emissions), which is generally much larger than finance available for adaptation. The same paper estimates that the adjustment needs of these countries are under-funded by as much as US$1 billion annually, of which more than 60 percent in the Caribbean. Finally, not all financing available for adaptation in small states is concessional.

16. *Given due diligence requirements of donor funds and ECCU's lackluster score in the public investment heatmap, can staff comment on how this would affect the prospects of obtaining concessional financing from donors? Has there been discussion on alternative approaches to improve resilience while also adhering to the ECCU public debt target?*

- During the consultation, staff engaged in discussions with the authorities on the tension between costly resilient investment and the importance of a maintaining fiscal sustainability. This was discussed with prime ministers and also during a seminar presentation at the regional central bank. Staff's advice is full integration of resilience investment and insurance mechanisms with fiscal responsibility frameworks to help the ECCU achieve the debt target while improving resilience, as outlined in the staff report. Moreover, staff is supporting countries with reforms that can enhance access to grants, including TA on public financial management, procurement, and budget transparency. Staff has also engaged with donors to simplify qualification for disbursement –for example, during the conference in November 2018 with participation of Caribbean prime ministers, climate funds, and official creditors. Alternative approaches are embedded in staff's policy advice at the country level, in the form of concrete measures for public spending efficiency and revenue enhancement, including reduction of discretionary tax incentives and improvement in tax administration.

17. ***While the focus of staff's report is on the climate-resilience of public investment, we would also be interested in the assessment of private investment being sufficiently "disaster-proof" (possibly based on anecdotal evidence)?***

- Existing public and private capital in ECCU countries is broadly assessed as non-resilient. With regards private capital, enforcing building and zoning codes has been challenging given that the low-income population is typically the most exposed. However, countries recently affected by large disasters such as Dominica are changing this behavior. Pre-existing public investment projects are being redesigned and new resilience projects are being built. Other countries, albeit in agreement with the need to pursue resilience, have shown less progress in practice.

18. **Beyond emergency responses, we share staff's views on the need for adapting physical and social infrastructures given the magnitude of natural disasters adverse impact on GDP.** ***Can staff give some details about the collaboration with World Bank and other institutions regarding how such strategies should be designed?***

- Fund staff works in close collaboration with The World Bank to develop climate resilient strategies. The Fund typically focuses on ensuring financial sustainability of related policies and integration in a sustainable macroframework. Microeconomic aspects of resilience, including physical infrastructure and insurance, are most typically handled by the World Bank, usually including financing. Examples of collaboration includes Climate Change Policy assessments produced jointly by both institutions, or collaboration on ex-post damage assessments. The quantification of insurance needs for ECCU countries in this consultation follows the World Bank layering framework.

Financial sector

19. ***In this regard, we would like to hear staff's view on CBRs. Specifically, many Caribbean countries have tried to reduce risks of losing CBRs and the Fund has supported their efforts, collaborating with other institutions. Could staff comment on effectiveness of the Fund and other institutions support and lessons for other regions based on experiences until now?***

- During the third Caribbean Roundtable on industry solutions to the withdrawal of correspondent banking relationships (CBRs)—organized last October by LEG, MCM, and WHD in collaboration with the Central Bank of the Bahamas, provided an occasion to assess the effectiveness of the Fund and other institutions' support.

- Overall, the withdrawal of CBRs appears to have stabilized, with participating banks noting that there has been no further erosion in access to CBRs in the region and that most banks have secured access to U.S. dollar clearance mainly through alternate arrangements. Risks remain, however, owing to an increase in concentration and an increase in transaction costs.

- Some of the regional solutions that were discussed during previous roundtables have gained traction. It includes the consolidation of transactions and of the banking sector, and the provision of technical assistance to national authorities by international and regional institutions.

- Going forward, the Fund staff will leverage on the positive experiences identified in the Caribbean, including in the context of its work in other regions. In particular, it will continue to facilitate dialogue among various stakeholders to help countries maintain existing CBRs, while addressing fragilities. Staff will also continue providing AML/CFT technical assistance to countries and remain engaged with other technical assistance providers, and mobilizing regional technical assistance and training centers, as appropriate.

- On the ECCU in particular, staff and the ECCB have started a joint project to develop a new database to monitor and analyze CBR developments and analyze the effectiveness of policy responses.

20. ***On the recurring advice to phase out the ECCU minimum saving deposit rate, could staff comment on the impact of the mandated rate on banks' resource costs?***

- The minimum saving rate (MSR), currently at 2 percent, applies to saving deposit accounts of individuals. The interest costs to banks of these accounts is 0.8 percent of total assets. The MSR increases banks' funding costs, ultimately affecting lending rates and profitability. The latter is important to reduce NPLs through profit capitalization.

21. **The establishment of a Credit Bureau and the Deposit Insurance Fund will also help strengthen this process.** ***We would welcome staff's comments on the establishment of a macroprudential framework for ECCU.***

- While enhancing microprudential frameworks is a priority for the ECCU, progress on establishing a macroprudential framework would provide additional tools to address systemic risks. The ECCU has benefitted from CARTAC and Fund headquarters support in its establishment of a broad macroprudential framework in the ECCU.

Further steps would include codifying the mandate for macroprudential oversight in legislation, strengthening institutional arrangements and coordination to support macroprudential policy, and enhancing the development of systemic risk indicators to inform effective decision making.

22. We noted, with concern, the significant impact of the catastrophic events on the insurance sector. ***Staff comments are welcome on the plans to revive the insurance sector to provide necessary insurance, and also to address financial stability risks and fiscal costs going forward.***

- No specific plans to revive the insurance sector were shared with the mission team, however the authorities confirmed that upgraded laws to govern insurance and pension sectors were well advanced, as was work to reform and strengthen the oversight framework for these sectors to help address financial stability risks and fiscal costs.

23. We positively note the ECCU's efforts to harness the benefits of disruptive technologies to modernize their operations and support the economic transformation. ***Staff comments are welcome on the MOU signed for a blockchain technology project and the authorities' plans to issue digital fiat currency.***

- Staff welcomes the search for innovative solutions that can bring substantial benefits. However, the success of a central bank digital currency depends on its design and country-specific characteristics that need to be studied carefully. Staff intends to analyze this issue in some detail in the course of the 2019 Common Policies Discussion.

24. We encourage the authorities to move rapidly to find funding options involving private sector participation given limited fiscal resources, and upgrade insolvency and foreclosure laws to mitigate legal uncertainty, easing restrictions in non-citizen property to widen the scope for private sector participation. By contrast, it is not clear what the main risks are in practice arising from a decline in corresponding banking. ***Clarification by staff would be welcome.***

- The main risks arising from CBR pressures relate to increased financial fragilities as cross-border flows are concentrated through fewer CBRs or maintained through alternative arrangements. These fragilities could undermine affected countries' long-run growth and financial inclusion prospects by increasing costs of financial services and negatively affecting bank ratings. In addition to banks' increased counterparty, concentration and withdrawal risks, for some non-bank financial institutions (e.g. money services businesses, credit unions) there is risk of termination of CBR-related services by their domestic bank based on "Know Your Customer's Customer" practiced by some correspondent banks.

25. **Although important progress has been made in advancing the regional financial sector reform agenda, we urge the authorities to take further effort to strengthen the resilience of the banking and non-banking sectors. We agree with staff's analysis and recommendations in this regard.** ***Could staff provide an update on their engagement with regional authorities and the private sector to explore potential ways to mitigate further declines in correspondent banking relationships?***

- During the mission, staff engaged in specific discussions with all the authorities, private sector and financial industry associations met with on the subject of CBRs to discuss developments and trends, related risks, actions and measures taken in response and downstream impact on non-bank financial institutions and other domestic bank clients. Discussions also extended to strategies, projects and planned actions aimed at alleviating the risk of CBR withdrawals, which include reforms to the AML/CFT oversight framework, engagement of the fintech project and planned implementation of monitoring templates.

26. **Resolving weaknesses in the financial sector is necessary for financial stability. We think that high and growing NPL ratio, which has risen to 15.2 percent for local banks, and even reached 24.8 percent for government-owned banks is worrisome and needs to be addressed urgently.** ***Could staff comment on the reasons for low provisioning for NPLs?***

- There are different reasons for low provisioning. In some cases, banks are seeking to avoid crystallization of possible capital adequacy issues by not applying proper provisioning against NPLs ranging between 3 and 15 years old. In some cases, banks wish to report stronger profits and make dividend distributions. Repeated postponement of recognition and decisive action on problem loans only exacerbate the affected banks' financial condition and increase financial stability risk.

27. **We were surprised to know that foreign banks are leaving the region.** ***Could staff comment on the reasons for such actions – is it a lack of demand, disaster risks or regulatory issues?***

- Profitability, risk, and cost-benefit considerations seem to be underlying Scotiabank's decision to exit the ECCU, Guyana, and St Maarten. The bank cited increasing regulatory complexity and the need for continued investment in technology to support its regulatory requirements in its decision to focus the bank's efforts on markets with significant scale (including larger markets in Latin America and Dominican Republic). Exiting the noncore operations is consistent with a strategy that began five years ago, including to sharpen its focus, increase scale in core geographies and businesses, and improve earnings quality. The transactions would reportedly increase the bank's common equity tier one capital ratio by around 10 basis points when they close.

28. **We would also like to draw attention to the fact that the ECCB itself should become more transparent. The information on the ECCB website looks outdated, often by at least a year.** ***Could staff comment on the ECCB's plans, if any, to improve transparency of its operations and communication policy?***

- The authorities intend to improve timeliness of data releases, including on balance of payments and financial stability, but face capacity constraints that they are trying to overcome. The ECCB is strengthening the balance of payments unit of the Statistics Department with new hires and is discussing a reorganization of tasks that would see the responsibility for projections transferred to the Research Department. This would free up additional resources and likely lead to more timely data publication. With the nascent financial stability function within the ECCB, staff were advised of intentions for timeliness of the Financial Stability Report to be improved over time with upgraded information gathering.

29. ***Could staff provide further clarification on the factor holding back NPL acquisition by the ECAMC and what the authorities could do to alleviate this?***

- NPL acquisition by the ECAMC has been impacted by poor response of approved financial institutions (AFIs) in providing requested information on NPLs as well as resource and expertise constraints. However, the pace of progress improved significantly in the latter part of 2018 with ECCB's follow-up with those AFIs and actions taken by the ECAMC to use all available resources including experienced officers in the receivership operations and engage an external expert. The ECAMC has since met conditionalities and timelines to facilitate continued Fund technical assistance through the advisory services of a peripatetic expert. The negotiations phase has now commenced and will require finalization of funding modalities (predominantly private sector) to facilitate transition to completing NPL acquisition transactions by the July 2019 deadline.

30. ***Could staff comment on the drivers of NPLs in majority government owned banks as well as provide a sectoral breakdown of these NPLs?***

- While staff does not have a sectoral break-down, based on discussions with banks the general categories of NPLs are retail—mostly mortgages and commercial—largely tourism and commercial related construction; some enterprises in the education, entertainment and tourism sectors; and large CBI-related projects. The latter largely account for the uptick in NPLs in majority government owned banks.

31. ***We would welcome staff comments on possible strategies to address the issue of banks' size and scale, required to maintain CBR minimum transaction thresholds in ECCU countries.***

- The principal strategy to address the issue of banks' size and scale required to maintain CBR minimum transaction thresholds in ECCU countries is the ECCB's and ECCU governments' consolidation strategy that has been articulated for some years now. However, apart from a modification to laws to permit domestic banks in ECCU jurisdictions to extend cross-border and current considerations by indigenous banks to implement functional cooperation including sharing services and costs as a first step for more consolidation, this strategy has not progressed materially.

Structural reforms

32. ***Could staff provide an update on the plans to create a single domestic space that would simplify tourist travel throughout the ECCU?***

- Based on the information available to staff, progress on the creation of a single space has been limited. The OECS Common Tourist Policy is currently being revised. In addition, steps have been taken to expand and enhance the efficiency of intra-regional travel with the approval of the OECS Air Services Agreement.

33. ***In staff's view, what are the priorities for the structural reforms?***

- In staff's view, there are three priority areas for structural reforms: (i) *high dependence on hydrocarbons,* which exposes ECCU countries to high and variable prices of imported fuel and is inconsistent with countries' commitments under the Paris accord. Most countries are already implementing renewable energy programs. Energy sector reforms have been considered by staff in the 2014 ECCU Common Policies Staff Report, Appendix IV: "Energy Sector Challenges and Policies in the ECCU"; and in the WP/16/53, "Caribbean Energy: Macro-related Challenges"; (ii) *costs of doing business,* which are a hindrance to FDI, a key driver of growth in the region and a source of valuable technological spillovers, as well as to domestic investment. As part of its 2017-2021 Strategic Plan, the ECCB intends to provide policy advice to countries to help them achieve a top-50 ranking in the World Bank's Doing Business indicator within three years; and (iii) *labor markets and education*, in light of high structural unemployment, skills mismatches, and a weak link between productivity and pay (see WP/14/15, "Labor Market Issues in the Caribbean: Scope to Mobilize Employment Growth").