INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/62

EASTERN CARIBBEAN CURRENCY UNION

February 2019

2018 DISCUSSION ON COMMON POLICIES OF MEMBER COUNTRIES—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE EASTERN CARIBBEAN CURRENCY UNION

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2018 Discussion on Common Policies of Member Countries, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 28, 2019 consideration of the staff report.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 28, 2019, following discussions that ended on November 20, 2018, with the officials of Eastern Caribbean Currency Union on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 20, 2018.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Easter Caribbean Currency Union.

The documents listed below have been or will be separately released.

Selected Issues

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Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

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Press Release No. 19/55
FOR IMMEDIATE RELEASE
February 22, 2019

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2018 Discussion on Common Policies of Member Countries of the Eastern Caribbean Currency Union

On January 28, 2019 the Executive Board of the International Monetary Fund (IMF) concluded the 2018 discussion on the common policies of the Eastern Caribbean Currency Union (ECCU) in the context of the Article IV consultations with member countries.[1]

The region is gradually recovering following the catastrophic impact of Hurricanes Irma and Maria in 2017. Tourist inflows are slowly picking up in hurricane-struck countries and have remained strong elsewhere. Conditions remain favorable to growth, but risks are increasing. The fiscal position has deteriorated, reflecting lower inflows from citizenship-by-investment programs and larger reconstruction and current spending, and the ECCU debt target of 60 percent of GDP by 2030 remains elusive for most countries. Despite important progress on financial sector reform, persistent weaknesses and emerging risks weigh on growth prospects and may give rise to fiscal liabilities. External imbalances remain large, highlighting lack of competitiveness and the impact of natural disasters.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of these bilateral Article IV consultation discussion, staff hold separate annual discussions with the regional institutions responsible for common policies in four currency unions – the Euro Area, the Eastern Caribbean Currency Union, the Central African Economic and Monetary Union, and the West African Economic and Monetary Union. For each of the currency unions, staff teams visit the regional institutions responsible for common policies in the currency union, collects economic and financial information, and discusses with officials the currency union's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis of discussion by the Executive Board. Both staff's discussions with the regional institutions and the Board discussion of the annual staff report will be considered an integral part of the Article IV consultation with each member.

Executive Board Assessment[2]

Executive Directors 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

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

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.

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 ll take place until the next Board discussion of ECCU common policies.

ECCU: Selected Economic and Financial Indicators, 2014–24 1/

Social and Demographic Indicators (ECCU-6 only)

Population (2017)		Health (per 1,000 people)	
Total (thousands)	627.9	Physicians (latest weighted avg.	0.7
Annual rate of growth, 2000–2017 (percent)	2.1	Hospital beds (2011 weighted avg.	2.7
		Life expectancy at birth (years)	74.1
Population characteristics		GDP (2017)	
Crude birth rate (per thousand, latest weighted avg.)	16.3	In nominal US$ millions	6,754
Crude death rate (per thousand, latest weighted avg.)	7.5	Per capita	10,756
Arable land (percent of land area, 2011 weighted avg.)	9.3	Area (sq. km, 2013)	2,790

				Prel.				Proj.			
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
					(Annual percentage change)						
National income and prices											
Real GDP	3.6	2.1	3.4	1.4	2.2	3.9	3.1	2.5	2.3	2.2	2.1
GDP deflator	1.9	3.3	1.0	1.3	1.8	2.0	1.8	1.8	1.9	1.9	2.0
Potential GDP growth (HP filter)	1.8	2.0	2.1	2.3	…	…	…	…	…	…	…
Consumer prices, average	1.1	-0.8	-0.8	1.1	1.8	1.9	1.7	1.8	1.9	1.9	1.8
Monetary sector											
Liabilities to the private sector (M2)	8.2	4.1	0.8	4.6	4.0	5.0	4.5	4.4	4.2	4.1	4.2
Net foreign assets	42.5	31.7	13.3	15.6	5.8	4.0	1.8	4.4	6.8	7.0	7.5
Of which: Central bank	20.8	10.6	8.4	3.3	6.1	5.5	0.9	1.3	4.1	6.1	5.4
Of which: Commercial banks (net)	248.9	101.3	22.2	35.2	5.4	2.2	3.0	8.2	10.0	8.0	9.8
Net domestic assets	-3.3	-9.5	-8.1	-5.0	2.0	6.2	7.5	4.3	1.5	0.9	0.3
Of which: Private sector credit	-4.6	-4.3	-6.5	-0.1	0.6	1.3	1.2	1.6	1.8	1.9	2.0
					(In percent of GDP)						
Public sector											
Primary central government balance (incl. natural disasters)	1.4	3.1	4.3	2.5	2.4	-1.3	-0.9	-0.8	-0.8	-1.0	-1.1
excl. Citizenship by Investment Prog.	-1.2	-0.9	0.1	-0.7	-0.9	-2.7	-2.1	-1.7	-1.6	-1.6	-1.6
Overall central government balance (incl. natural disasters)	-1.4	0.5	1.8	0.1	-0.2	-3.5	-3.2	-3.2	-3.3	-3.6	-3.8
excl. Citizenship by Investment Prog.	-3.9	-3.5	-2.4	-3.1	-3.5	-5.0	-4.4	-4.1	-4.0	-4.2	-4.3
Total revenue and grants	26.7	28.4	29.3	28.1	28.0	25.9	24.9	24.5	24.3	23.9	23.8
Total expenditure and net lending	28.0	27.9	27.5	28.1	28.2	28.5	27.2	26.8	26.6	26.6	26.6
Foreign financing	1.1	-0.6	0.1	0.8	0.9	1.2	1.0	0.3	0.0	-0.1	-0.1
Domestic financing including arrears	0.1	0.3	1.0	1.4	2.5	1.9	2.0	2.3	2.5	3.0	3.0
Central government current account balance	0.8	2.0	3.3	2.0	1.5	-0.2	-0.1	-0.2	-0.3	-0.3	-0.3
Total public debt (end-of-period) 2/	80.9	76.2	73.8	72.1	71.1	70.3	69.5	69.7	70.3	70.8	71.1
					(Annual percentage change)						
External sector											
Exports, f.o.b.	n.a.	-12.1	-14.4	-8.1	4.3	5.6	5.3	4.5	5.7	5.0	5.3
Imports, f.o.b.	n.a.	-5.1	3.9	4.2	11.6	3.5	3.6	3.0	2.5	3.2	3.2
					(In percent of GDP)						
External current account balance	-5.4	-4.3	-7.7	-8.0	-8.7	-8.8	-9.3	-8.6	-7.7	-7.1	-6.7
Trade balance	-31.1	-28.4	-29.1	-30.0	-32.5	-31.6	-31.2	-30.7	-30.1	-29.8	-29.4
Services, incomes and transfers	25.7	24.1	21.4	22.0	23.7	22.8	21.9	22.1	22.4	22.7	22.7
Of which: Travel	40.2	38.9	37.3	37.3	37.9	38.3	38.5	38.5	38.6	38.7	38.7
Capital minus financial accounts	6.2	2.8	9.7	8.0	8.7	8.8	9.3	8.6	7.7	7.1	6.7
Of which: Foreign direct investment	-9.0	-8.6	-8.8	-7.1	-7.8	-8.0	-7.9	-7.8	-7.6	-7.5	-7.5
External public debt (end-of period)	44.0	41.0	40.0	38.5	38.0	37.1	36.3	35.9	35.2	34.6	33.7
External debt service, percent of goods and nonfactor services	6.3	3.5	5.1	5.9	5.5	5.1	6.0	4.3	4.3	4.2	4.1
Of which: Interest	1.9	1.9	1.9	1.9	2.0	2.1	2.1	2.1	2.1	2.1	2.1
Saving-Investment Balance	-5.4	-4.3	-7.7	-8.0	-8.7	-8.8	-9.3	-8.6	-7.7	-7.1	-6.7
Saving	8.7	9.3	6.0	4.1	4.2	4.6	3.0	3.2	3.9	4.4	4.8
Investment	14.1	13.5	13.7	12.1	12.9	13.5	12.3	11.9	11.6	11.5	11.5
Reserves											
In millions of U.S. dollars	1,411	1,560	1,690	1,745	1,852	1,953	1,970	1,996	2,077	2,204	2,323
In months of current year imports of goods and services	4.7	5.3	5.4	5.4	5.4	5.3	5.2	5.1	5.1	5.3	5.4
In percent of broad money	25.3	26.9	28.9	28.5	29.1	29.2	28.2	27.4	27.4	27.9	28.2
REER (average annual percentage change)											
Trade-weighted	0.0	6.5	-2.3	-4.2	…	…	…	…	…	…	…
Competitor-weighted	1.8	0.4	0.3	-0.2	…	…	…	…	…	…	…
Customer-weighted	-0.8	3.1	2.0	-0.3	…	…	…	…	…	…	…
Memo items:											
Imputed cost of natural disasters (percent of GDP)	…	…	…	…	…	0.9	0.9	0.9	0.9	0.9	0.9

Sources: Country authorities; and Fund staff estimates and projections.

1/ Includes all eight ECCU members unless otherwise noted. ECCU price aggregates are calculated as weighted averages of individual country data. Other ECCU aggregates are calculated by adding individual country data.

2/ Debt relief has been accorded to: (i) Grenada under the ECF-supported program in 2017; and (ii) St. Vincent and the Grenadines in 2017 and Antigua and Barbuda in 2018 under the Petrocaribe arrangement.

INTERNATIONAL MONETARY FUND

EASTERN CARIBBEAN CURRENCY UNION

December 20, 2018

STAFF REPORT FOR THE 2018 DISCUSSION ON COMMON POLICIES OF MEMBER COUNTRIES

KEY ISSUES

The Eastern Caribbean Currency Union (ECCU) is gradually recovering 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. Conditions remain favorable to growth, but risks are increasing. The fiscal balance for the region as a whole—which is particularly important in a quasi-currency board arrangement—worsened in 2017, reflecting lower inflows from citizenship-by-investment programs and higher reconstruction and current spending. While public debt has declined, helped by debt relief operations in some countries, the ECCU debt target of 60 percent of GDP by 2030 remains elusive for most countries. Important progress has been made in financial sector reforms, but long-standing weaknesses and emerging risks weigh on growth prospects and may entail fiscal costs. External deficits remain large, highlighting low competitiveness. Natural disasters are becoming more frequent and intense, compounding these vulnerabilities.

Main Policy Recommendations:

- **Shift focus from the current emphasis on recovery from natural disasters to building ex-ante resilience based on:** (i) boosting resilient investment and insurance protection to enhance preparedness to natural disasters and climate change; and (ii) a robust fiscal framework that would both support the shift towards building resilience and help anchor the much-needed fiscal adjustment to break the vicious cycle of high debt and low growth.

- **Intensify decisive and timely actions to resolve weaknesses in the financial sector,** including longstanding problems in the banking sector and emerging risks in the non-banking sector.

- **Undertake structural reforms to enhance competitiveness and boost growth,** focusing on energy policies, the business climate, trade liberalization, public sector efficiency, regional integration, labor market, and education.

Approved By
Krishna Srinivasan (WHD) and Johannes Wiegand (SPR)

Mission Team: Sònia Muñoz (head), Leo Bonato, Alejandro Guerson, Bogdan Lissovolik, Manuk Ghazanchyan (all WHD), and Gayon Hosin (MCM) held policy discussions with the eight ECCU jurisdictions (Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and The Grenadines), the ECCB, the OECS Secretariat, and the CDB. Mike Sylvester (OED) participated in the closing meetings and Ann Marie Wickham (local economist, WHD) joined some meetings in Bridgetown. The team met with the Prime Ministers of five of the eight-member jurisdictions, Financial/Permanent Secretaries of six-member jurisdictions, Financial Services Authorities of the eight member jurisdictions, the ECCB Governor and other senior officials, the Organization of Eastern Caribbean States (OECS), the Caribbean Development Bank (CDB), and a wide range of private sector representatives.
Mission Dates: October 24-November 2 and November 12-20, 2018.
Contributors: ECCU team. Additional analytical input was provided by Marika Santoro and Mauricio Vargas. Steve Brito and Vivian Parlak provided research assistance and Malika El Kawkabi provided editorial assistance.

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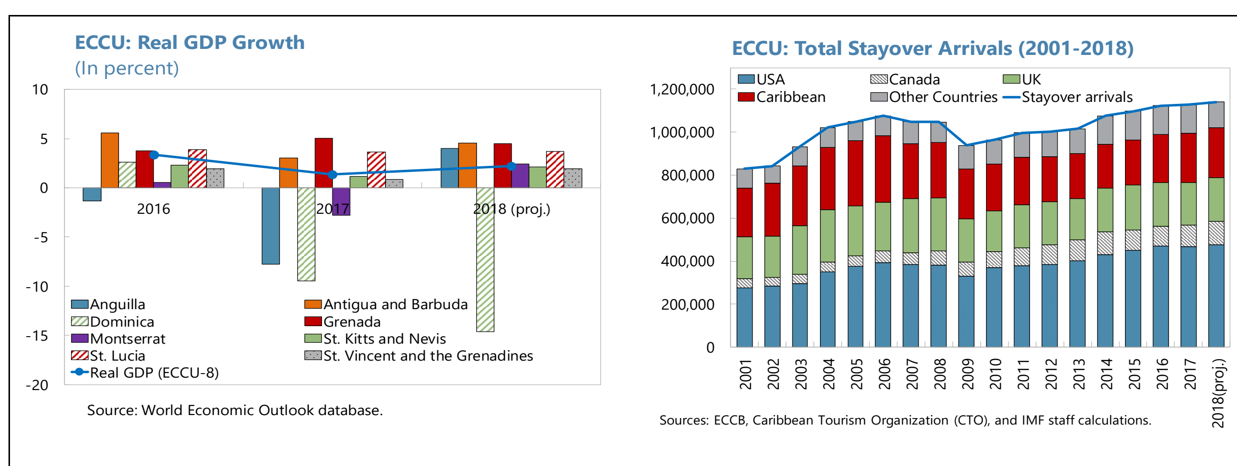
THE RECOVERY IS UNDERWAY, BUT RISKS ARE LOOMING

A. Recent Developments

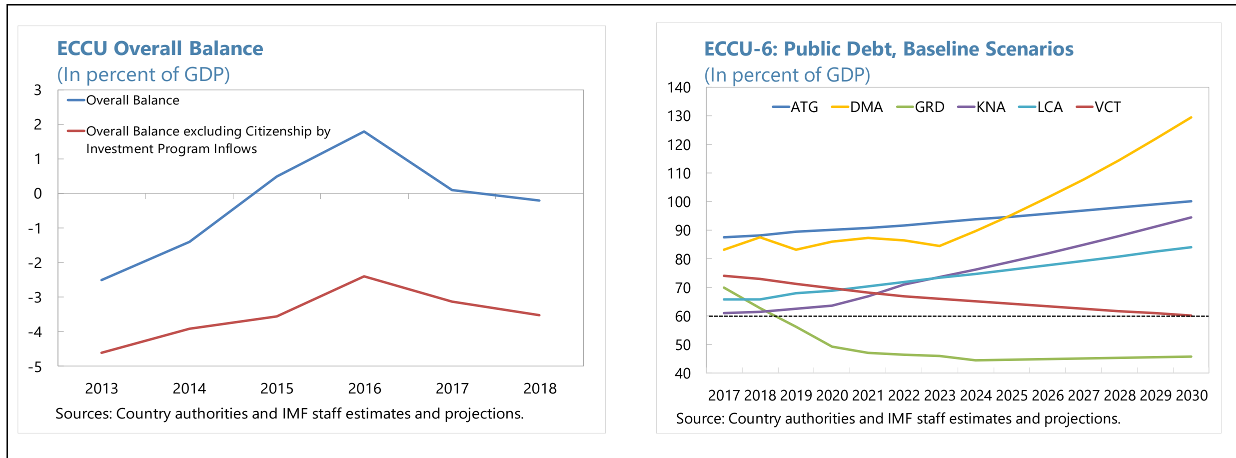
1. **Growth is gradually recovering in 2018 following the adverse economic impact of natural disasters in 2017**. In September 2017, Hurricanes Irma and Maria hit the region with catastrophic effects on some countries, particularly Dominica and Anguilla.[1] Tourist arrivals declined in late 2017 in the affected countries, but they remained strong elsewhere in the first half of 2018. Reflecting these events, regional GDP growth fell to 1.4 percent in 2017 from 3.4 percent in 2016. With output still below potential, core inflation remained subdued, but sharp increases in the prices of food and medication were experienced by hurricane-struck countries in the first half of 2018.



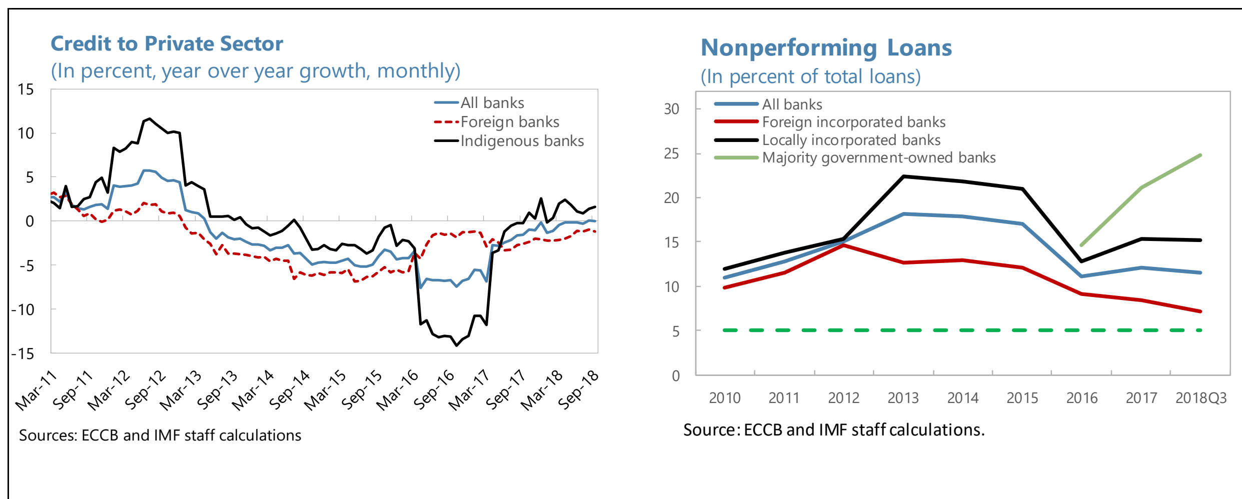
2. **The fiscal balance deteriorated in 2017 and the first half of 2018, but debt relief in some countries eased the overall region's public indebtedness.** The combined ECCU fiscal surplus declined markedly in 2017, largely reflecting lower inflows from citizenship-by-investment (CBI) programs in Dominica and St. Kitts and Nevis and increases in current expenditure. The fiscal balance is projected to decline further in 2018, while the underlying fiscal deficit (excluding revenues from CBI programs and bank resolution operations) is expected to increase to about 3½ percent of GDP in 2018. Public debt, however, declined by about 1 percent to an estimated 72 percent of GDP in 2017, largely reflecting debt relief in some countries.[2]

[1] On September 5, Irma, a category 5 hurricane, hit Anguilla, Barbuda, and St. Kitts and Nevis. On September 19, Maria, also a category 5 hurricane, hit Dominica and St. Kitts and Nevis. Estimated damages range from 226 percent of GDP (Dominica) and 103 percent of GDP (Anguilla) to 9.8 percent of GDP (Antigua and Barbuda) and 3.3 percent of GPD (St. Kitts and Nevis). While 95 percent of buildings were destroyed in Barbuda, Antigua—a much larger economy—was not significantly damaged.

[2] Including the final haircut under the ECF-supported program in Grenada and the restructuring of Petrocaribe debt in St. Vincent and the Grenadines.



3. Recovery in credit provided by banks is weak after four consecutive years of decline, and banking sector risks are increasing. While the business cycle turned in 2011, the credit cycle has lagged (Annex IV). Even now, amid signs of recovery, bank credit growth continues to be subdued (0 percent in September 2018) despite ample bank liquidity, due to low levels of bankable loans. Natural disasters and emerging problems in CBI-related loans raised the nonperforming loan (NPL) ratio to 15.2 percent in locally incorporated banks in September 2018—24.8 percent in majority government-owned banks—while provisioning against such impairment remains low. The reclassification of the debt-land-swap from financial to fixed assets— which requires a risk weight of 100 percent—has decreased the capital adequacy ratio of majority government-owned banks in one jurisdiction, but it remains above the regulatory minimum. Differences exist among ECCU countries, with Grenada's NPL ratio declining rapidly and St. Kitts and Nevis' increasing.[3]



4. Although relatively small, lending by credit unions has increased rapidly in recent years. Signs of fragility in credit unions and building and loan societies are increasing in some countries that suffer from high NPLs and low capitalization, including in Dominica, where the sector

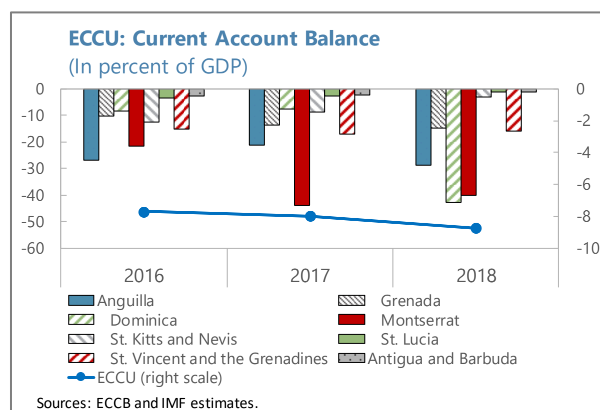
[3] Grenada has a more agile court process for collateral recovery than other member jurisdictions.

is systemic accounting for assets totaling 55 percent of GDP. Catastrophic events heavily affected the insurance sector, leading to an estimated 90 percent decline in net income in 2017,[4] with a domestic company in one jurisdiction being unable to honor many of its obligations after the latest hurricane.

5. **The decline of correspondent banking relationships (CBRs) across the region has stabilized, but maintaining CBRs is more challenging and costly**. A few banks, with no direct CBRs with the U.S., are transacting through a non-U.S. bank at significantly increased costs—ranging between 40 and 100 percent higher—and no bank has reported a successful application for CBRs with large U.S. banks. Some banks only have one relationship, which exposes them to withdrawal risk. Those that have more relationships are under pressure by correspondent banks to increase the volume of transactions. Non-bank financial institutions, including credit unions, money services business, and off-shore institutions, are also being impacted by domestic banks exiting certain services and/or banking relationships. In several instances, recently approved off-shore and domestic institutions have been unable to commence business after failing to establish banking relationships with overseas and/or domestic banks, because of which some licenses have been revoked.

6. **Some foreign banks are retrenching from the Caribbean region**. First Caribbean International Bank (of the Canadian Imperial Bank of Commerce group) will close its Anguilla operations as of January 2019, due to lack of viability in terms of profitability and scale. Republic Financial Holdings Limited from Trinidad and Tobago has announced its intention to acquire Bank of Nova Scotia's operations in seven ECCU jurisdictions, as well as Guyana and St. Maarten. Bank of Nova Scotia indicated that its decision is based on a refocus on markets of size and scale. Additionally, Bank of Nova Scotia's subsidiaries in Jamaica and Trinidad and Tobago have agreed to sell their insurance operations to Barbados-based Sagicor Financial Corporation Limited, which would be acquired by a Toronto-based special purpose acquisition corporation.

7. **Large external imbalances persisted in 2017.** The combined current account deficit of the ECCU reached an estimated 8 percent of GDP in 2017, broadly unchanged since 2016.[5] In most countries, conditions remained favorable to tourism, owing to supportive economic prospects in source countries, the addition of direct airline routes, and increased capacity.



[4] Best's Special Report – Trend Review June 14, 2018.

[5] The current account deficits are however lower than those reported during the 2017 ECCU consultation, owing to the shift to the BPM-6 methodology that generally improved the external balances. Staff estimates differ slightly from the ones released by the ECCB in September 2018, owing to the reclassification of insurance payouts in Dominica. Staff is discussing the appropriate classification with STA, CARTAC, and the ECCB. New estimates will be released by the ECCB in March 2019.

B. Outlook and Risks

8. Growth is projected to gain strength in 2018 and 2019. Growth will be supported in the short term by favorable external conditions, recovery from natural disasters, and a gradual resumption of bank lending (Annex IV).[6] U.S. policy shocks will have a considerable impact on the ECCU, mostly through the tourism channel (Annex V). The positive effect from the U.S. fiscal impulse will be partially offset by monetary policy normalization and trade policies. Tourist arrivals are expected to remain strong in countries unaffected by hurricanes and gradually pick up in Anguilla and Dominica as the reconstruction advances. Several projects, related to both rebuilding and new tourism-related FDI, are expected to boost construction activity.

9. Fiscal and external vulnerabilities will weigh on longer-term prospects. Growth will converge to its potential of 2 percent. Following the temporary acceleration caused by natural disasters, the expected stabilization of oil and commodity prices will cause inflation to return to low levels, not exceeding 2 percent. In the absence of significant fiscal adjustment, the fiscal balance will deteriorate, reflecting reconstruction-related capital spending in the short term, and lower revenues and higher interest payments in the longer term. Against this background, only Grenada and St. Vincent and the Grenadines are on track to reach the ECCU target of 60 percent by 2030. With higher imports needed for rebuilding and FDI-related hotel construction, the current account deficit is projected to worsen in the next few years before gradually stabilizing at about 7.0 percent of GDP in the medium term, reflecting persistent competitiveness problems. Reserves appear adequate in the context of the quasi-currency board arrangement, even after taking into account the exposure of the region to natural disasters (Annex III).

10. Risks are titled to the downside. Adverse confidence effects from trade disputes and faster-than-expected monetary tightening could make the net growth impact of US policy shocks negative for the ECCU (Annex V). Other risks include global factors, such as security risks, unsustainable macroeconomic policies in systemic countries, cyberattacks and related financial instability (Annex II). Specific risks include natural disasters increasing in frequency and intensity, a further decline of CBRs, and lingering problems in the financial sector, with banks unable to resume lending, stress in the non-bank segment, and contingent fiscal liabilities from the banking sector. Upside fiscal risks stem from Petrocaribe debt restructuring, which could reduce public debt levels. The cost of petroleum imports, a key influence for the ECCU owing to its high dependence on hydrocarbon fuels, could increase with the closure of the Trinidad and Tobago's Petronin refinery, a supplier to the ECCU.

MACROFINANCIAL POLICY DISCUSSIONS

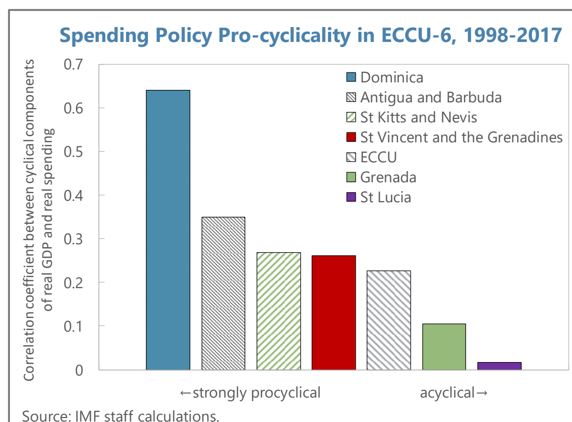
The ECCU is facing multiple challenges: low growth, weak fiscal performance, a vulnerable financial system, and low competitiveness. This is compounded by insufficient preparedness for natural disasters. Decisive action to durably improve the fiscal position, build resilience to natural disasters, strengthen

[6] As per guidance for small states, the baseline scenario incorporates an imputed fiscal cost of natural disasters, ranging from 0.2 to 1.4 percent of GDP.

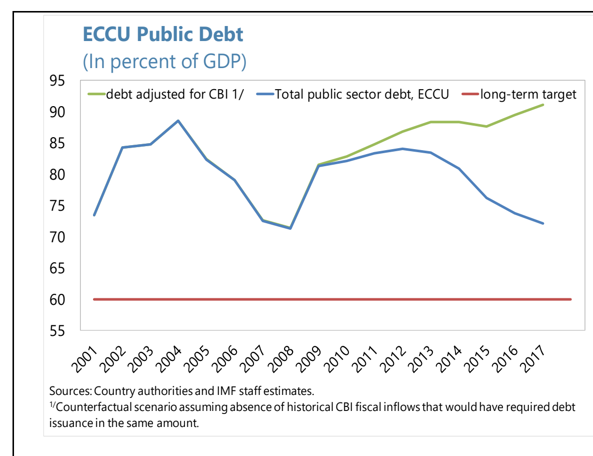
the financial sector, and address supply bottlenecks is needed to enhance policy credibility, boost regional integration, and attract the necessary support from the international community.

A. Robust Frameworks to Support Fiscal Consolidation

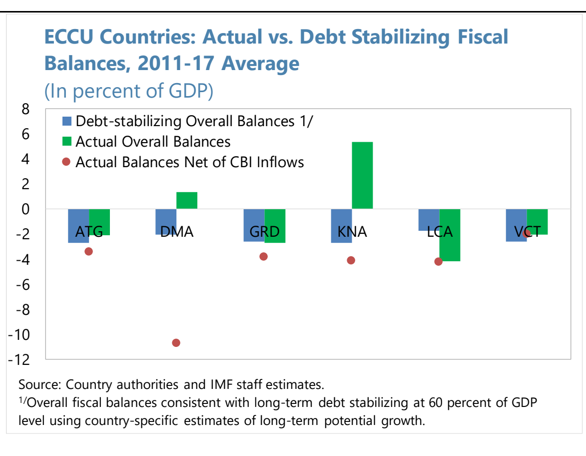
11. ECCU's fiscal performance has been characterized by high debt and strong pro-cyclicality. Progress in approaching the region's 60 percent of GDP public debt target has been insufficient, despite debt relief operations and periodic revenue windfalls, particularly from CBI programs. While natural disasters and external economic shocks have played an important role, domestic policies have displayed an expansionary bias, sometimes driven by political cycles, although there is substantial heterogeneity in individual country positions. In the absence of a strong fiscal anchor, clear commitments, and adequate financing, policies have had a strong pro-cyclical bias in most countries. While many ECCU countries have continued to upgrade their medium-term fiscal frameworks,[7] they still lack effective operational frameworks and procedures that link short-term and long-term objectives.



Source: IMF staff calculations.



Sources: Country authorities and IMF staff estimates.
1/Counterfactual scenario assuming absence of historical CBI fiscal inflows that would have required debt issuance in the same amount.



Source: Country authorities and IMF staff estimates.
1/Overall fiscal balances consistent with long-term debt stabilizing at 60 percent of GDP level using country-specific estimates of long-term potential growth.

12. Fiscal responsibility frameworks can usefully bolster ECCU's fiscal performance and help reduce debt. Recent evidence indicates that such frameworks (i) can be effective in correcting a deficit bias; (ii) could enhance economic stabilization; and (iii) are proving workable for small countries, including in the Caribbean (e.g., Grenada and Jamaica). Fiscal responsibility frameworks, however, are not a panacea and need to be well-tailored and supported by adequate institutions and specific fiscal consolidation measures. Large shocks and capacity gaps call for robust design and implementation strategies in ECCU countries.

[7] Initial drafts of medium-term fiscal frameworks aiming at achieving the 60 percent of GDP target were being prepared in six ECCU countries (excluding British Overseas Territories) at the time of the mission, but were not yet available for assessment.

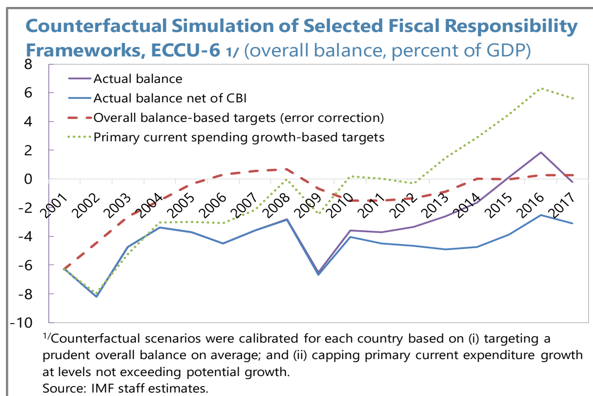
Box 1. Fitting Fiscal Frameworks to Country Characteristics

Umbrella structure, leaving countries to adapt operational solutions to their circumstances.

Debt anchor. The public debt target of 60 percent of GDP by 2030 provides a reasonable common anchor or ceiling. With only two countries on track to reach the target, convergence would be an overriding goal. For some individual countries, tighter operational debt objectives may be appropriate based on their specific characteristics, including specific buffers against shocks. Staff argues for: (i) calibrating the targets to gross debt; and (ii) using a broad general government definition to limit the scope for loopholes.

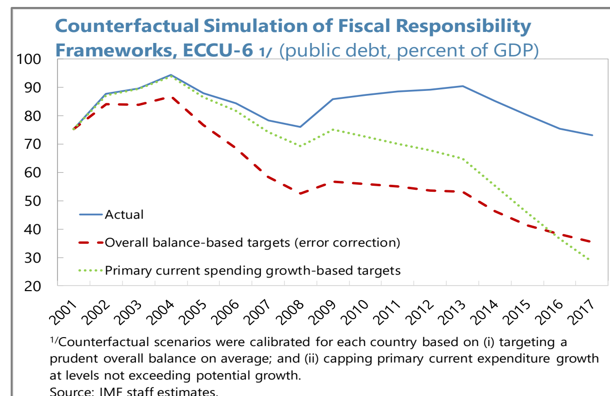
Operational targets. An *underlying budget balance target could be the main common element*, at least through 2030, due to its strong link to debt dynamics. The targets could be set on fiscal balances (either primary or overall balance depending on the country-specific circumstances)[1] net of volatile elements such as CBI inflows to be calibrated for each country to achieve the debt ratio of 60 percent of GDP before or in 2030. The option of supplementary *expenditure targets* would be strongly recommended given the critical need to ensure savings in good times and could potentially replace the budget balance targets beyond 2030 if debt is sufficiently reduced. Finally, *special sub-targets* could be used for key components of expenditure, to help right-size the wage bill (as in Grenada and Jamaica) and incentivize public investment, particularly for resilience-related projects. Within the above, individual countries need to avoid complexity and limit themselves to a narrow subset of options best suited to their own circumstances.

Counterfactual Simulation of Selected Fiscal Responsibility Frameworks, ECCU-6 1/ (overall balance, percent of GDP)



1/ Counterfactual scenarios were calibrated for each country based on (i) targeting a prudent overall balance on average; and (ii) capping primary current expenditure growth at levels not exceeding potential growth.
Source: IMF staff estimates.

Counterfactual Simulation of Fiscal Responsibility Frameworks, ECCU-6 1/ (public debt, percent of GDP)



1/ Counterfactual scenarios were calibrated for each country based on (i) targeting a prudent overall balance on average; and (ii) capping primary current expenditure growth at levels not exceeding potential growth.
Source: IMF staff estimates.

Fiscal buffers. The targets will need to be calibrated on a country-specific basis to achieve both the optimal buffer coverage (including insurance against natural disasters, as discussed in Box 3) and the 60 percent of GDP debt by 2030. Due to mutually reinforcing benefits of reducing debt and increasing buffers, these would need to proceed in parallel. Based on the assessment of the appropriate size of the buffers and debt target, staff has identified the financing gap that could be bridged by concessional financing (see next sub-section).

Flexibility to shocks and "tail events." Mechanisms could be included to provide flexibility while preserving the credibility of the framework, including: (i) precise escape clauses with verifiable triggers and corrective mechanisms in the event of truly large shocks (for which the envisioned buffers do not provide sufficient protection); (ii) allowances for relief/reconstruction spending financed with fiscal buffers; and (iii) hurricane clauses allowing cash flow relief as per recent experiences in Grenada and Barbados.

Supporting institutions. Priority areas include: (i) robust accounting procedures (for debt, deficits, CBI inflows, and full recording of non-guaranteed public debt and contingent liabilities); (ii) improved fiscal projections, particularly by including the average cost of natural disasters; and (iii) effective independent fiscal oversight and accountability procedures, such as Grenada's new fiscal responsibility oversight committee that is unconnected to the government.

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[1] An overall balance-based rule (used in Jamaica) has the advantage of a closer link to debt sustainability and more control over financing, while a primary balance-based rule (used in Grenada) should better facilitate compliance with the rule. In the ECCU, the difference between the two options would not be large in ECCU countries given the limited volatility of the interest cost of debt.

13. Fiscal frameworks need to be tailored to specific country characteristics, with a few common elements across the region (Box 1). The frameworks would be (i) consistent with the ECCU's debt target of 60 percent of GDP by 2030; (ii) based on a tailored operational target as a medium-term compass; (iii) supportive of the need to build resilience to natural disasters; and (iv) compatible with the institutional capacity of ECCU countries. Strong and broad-based political commitment would be essential to underpin those efforts.

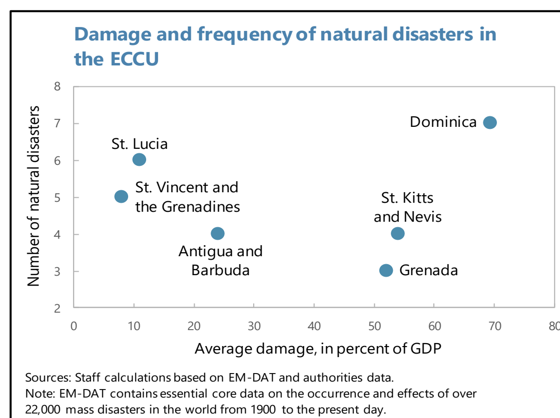
14. Staff analysis suggests that the proposed framework would contribute to better fiscal outcomes. Counterfactual simulations and scenario analysis suggest that the implementation of the new framework would: (i) substantially improve debt sustainability; (ii) reduce policy pro-cyclicality; and (iii) create fiscal space to build resilience (see next sub-section) and bolster potential growth. The proposed institutional improvements would be highly beneficial regardless of whether formal fiscal responsibility frameworks were adopted, as they would enhance the efficiency of public services, improve public investment outcomes, and contribute to a better and more broad-based public debate on fiscal policy issues. Finally, by enhancing transparency and predictability of fiscal policy, the framework can gradually facilitate union-level coordination and improve the region's clout in securing donor funding, including from climate funds.

B. Building Ex-Ante Resilience to Natural Disasters

Shifting the Paradigm: Preparing Ex-Ante for Natural Disasters and Climate Change

15. Natural disasters recurrently affect the ECCU, resulting in human loss, destruction of infrastructure, and large fiscal costs. Natural disasters put pressure on government's finances in the near and long term. In the near term, pressures arise from unanticipated needs for immediate social protection and rehabilitation expenditures, at a time when revenues typically decline. In the long term, the costs of natural disasters contribute to the increase of public debt. The ECCU is subject to larger and more frequent disasters that affect the entire economy. With climate change, the intensity and frequency of disasters is expected to increase.

Damage and frequency of natural disasters in the ECCU



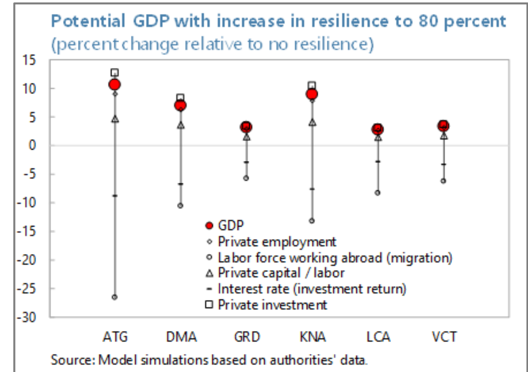
Sources: Staff calculations based on EM-DAT and authorities data.
Note: EM-DAT contains essential core data on the occurrence and effects of over 22,000 mass disasters in the world from 1900 to the present day.

16. The ECCU currently invests little in resilience-building and relies heavily on ex-post recovery efforts. Limited global financing that falls well short of adaptation needs and inadequate capacity to meet the complex access requirements of climate funds are key obstacles to investing in resilient structures or setting aside dedicated funds. Insurance uptake is also low, for both public and private sectors. The Caribbean Catastrophe Risk Insurance Facility (CCRIF), to which all ECCU countries have access, has been a valuable instrument, but most countries' risk ceding remains below needs, mainly because of the perceived high cost, concerns that significant damages may not trigger payouts, and competing developmental needs. Innovative risk-sharing tools such as cat-bonds have not been issued by the ECCU jurisdictions reflecting their complexity, high setup costs, and capacity/regulatory constraints.

17. **Building ex-ante resilience to natural disasters and climate change should be a key policy priority.** Staff recommends a paradigm shift from post-disaster recovery to building ex-ante resilience. A framework to support fiscal sustainability is a necessary precondition for a shift in strategy. Sustainable improvements in the fiscal position are necessary to create fiscal space and enhance opportunities to access concessional finance for resilience building.

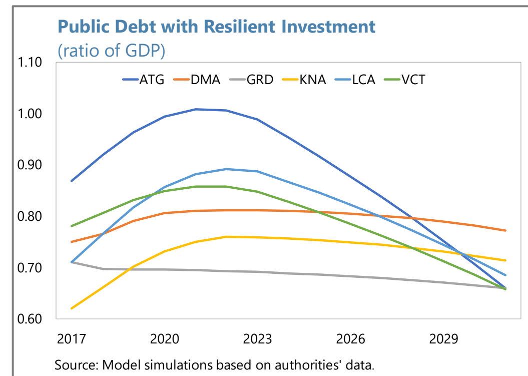
Box 2. The Benefits of Resilient Investment

Staff simulations are based on a dynamic general equilibrium model calibrated to all ECCU countries. Expected losses from natural disasters are estimated based on historical data for various types of disasters. The model assumes that resilient infrastructure (such as durable roads, bridges, and sea walls) is a perfect substitute for standard infrastructure but is 25 percent more expensive. Keeping the physical amount of public investment unchanged, countries are assumed to allocate 80 percent of investment in resilient capital, thereby gradually increasing the stock of resilient public capital until it reaches 80 percent. The outcome in terms of output and fiscal performance is then compared with a situation where no resilient capital is in place.

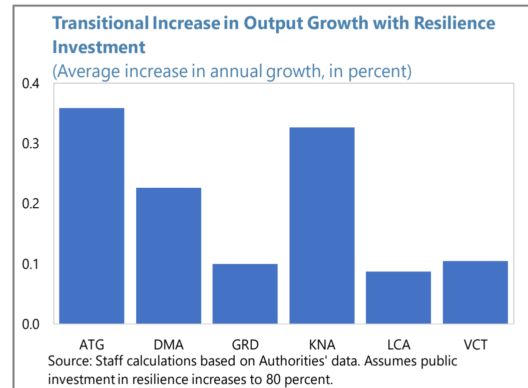


Under these assumptions on resilient public investment, potential output increases by about 3-11 percent in ECCU countries. This implies 0.1-0.4 percent higher GDP growth per year in ECCU countries. Additional annual savings of 0.7-2.7 percent of GDP come from reduced damages and losses from natural disasters.

Fiscal performance also is strengthened in the long term. Higher tax revenues more-than-offset the higher cost of resilient investment, improving the overall fiscal balance by 0- 3 percent of GDP. In the near term, however, the transition from standard to resilient capital has upfront fiscal costs, with returns materializing only at a later stage. Fiscal consolidation is already required in most ECCU countries to reach the regional debt target of 60 percent of GDP by 2030 (see previous sub-section). Assuming countries undertake sufficient fiscal adjustment aimed at meeting the debt target, simulations indicate that public debt would exceed its target by 4-20 percentage points of GDP in 2030 owing to the higher cost of resilient capital (only about half of the public capital stock would be resilient by 2030 at the current investment rates), without concessional financing.

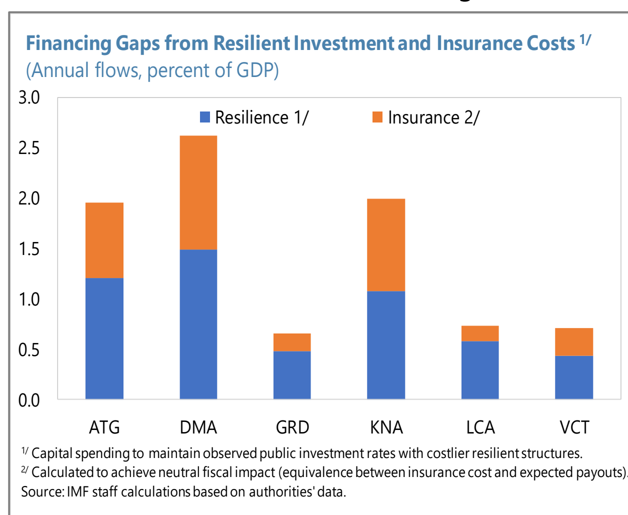


18. **Resilient investment for natural disasters can enhance long-term macroeconomic performance.** The shift to resilient public infrastructure reduces expected losses from natural disasters and raises returns to private investment, employment, and output. Resilient public capital reduces private investors' output losses in the event of a natural disaster, therefore expected returns to private investment are higher relative to non-resilient investment. Higher capital also increases returns to labor and wages, increasing domestic employment, and reducing outward migration, which is



generally high in countries prone to natural disasters.[8] Staff simulations indicate that the effects of resilient investment on potential output and fiscal performance would be significant (Box 2), with GDP growth higher by 0.1-0.4 percent per year in ECCU countries.

19. The additional near-term fiscal costs would open a transitional financing gap. The additional costs of resilient investment would make it difficult to attain the ECCU debt target of 60 percent of GDP by 2030. On top of an accumulated fiscal adjustment of 0-7 percent by ECCU countries to meet the debt target, staff's illustrative simulations show that resilience costs would create financing gaps of 0.4-1.5 percent of GDP or about US$60 million for the ECCU annually (blue bar in text chart) to enable countries adhere to the debt target. However, these estimated financing gaps for resilient investment should be interpreted as a minimum.[9] To close the financing gap, concessional financing from the international community, including climate funds, could play a key role.



1/ Capital spending to maintain observed public investment rates with costlier resilient structures.
2/ Calculated to achieve neutral fiscal impact (equivalence between insurance cost and expected payouts).
Source: IMF staff calculations based on authorities' data.

20. ECCU countries should also develop a comprehensive insurance strategy against natural disasters, which would add to the financing gap. Resilient structures mitigate destruction and losses from natural disasters, but do not eliminate them. To ensure liquidity for relief and reconstruction while protecting public finances, a comprehensive disaster risk financing strategy should be prepared. Insurance layering can be engineered to cover most natural disasters' fiscal costs, but near-term fiscal costs would be significant (Box 3). However, the immediate availability of financing for relief and reconstruction would have significant output payoffs.[10] Based on staff's simulations, reducing annual insurance costs to the value of expected payouts would create an additional fiscal gap of at least 0.2-1.1 percent of GDP or US$40 million for the region annually (orange bar in the text chart above). In the long term as structures become more resilient, insurance needs and fiscal costs would decline significantly. Simulations indicate that insurance requirements for same coverage could decline to about 1/4 of the current needs.

[8] Average out-migration rates (e.g., proportion of labor force working abroad) are about 40 percent on average in the ECCU, and nearly 80 percent for high-skilled workers, as reported by the United Nations (http://data.un.org/).

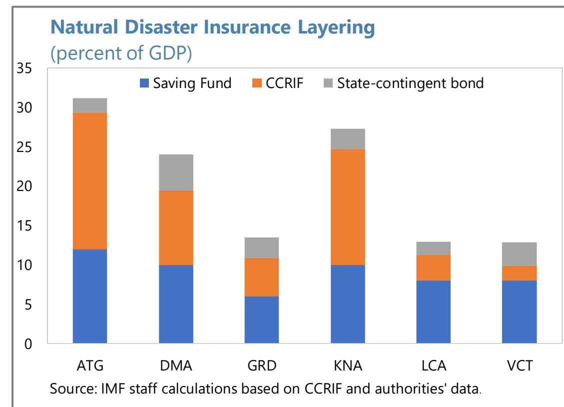
[9] The financing gaps are calculated as the savings required after fiscal adjustment to reach the regional debt target and cover with the additional costs of resilient investment and after fiscal adjustment. Public investment may need to be upscaled to accelerate resilience building, especially where public investment is low (Antigua and Barbuda and Saint Vincent and the Grenadines) or where reconstruction is underway after major natural disasters (Dominica).

[10] Cantelmo, A., Bonato, L., Melina, G. and G. Salinas, "Policy Trade-Offs in Building Resilience to Natural Disasters and Climate Change", IMF WP (forthcoming) estimate that these effects could be comparable to or greater than those of investing in resilience.

Box 3. Natural Disaster Insurance Financing

Appropriate size and costs of the three insurance layers is calculated using a stochastic model that replicates output and fiscal performance observed in the historical data after natural disaster shocks. Variables included are tax revenues, expenditures, and grants. Capacity and financing constraints, and re- prioritization of expenditures (reconstruction largely replaces pre-existing projects) are considered. The simulations assume that ECCU countries adopt a three-layer strategy[1/] as follows: (i) establishing a *saving fund* as self-insurance of 6-12 percent of GDP sufficient to cover 90-95 percent of disasters' fiscal costs (small and medium-sized natural disasters),[2/] with CBI resources financing startup costs where available; (ii) purchasing maximum access under *CCRIF*, with estimated expected coverage of 2-17 percent of GDP (larger disasters); and (iii) issuing *CAT bonds, a state-contingent debt instrument,* with debt service relief of 2- 5 percent of GDP (extreme events).[3/] The insurance instruments are layered according to their incremental costs.

The results indicate that, to cover 99 percent of the fiscal costs related to natural disasters, ECCU countries would need coverage in the amount of 15-30 percent of GDP. This coverage would imply annual fiscal costs in the range of 0.5-1.8 percent of GDP. At least part of these costs could be covered by donors to make insurance more affordable.



Source: IMF staff calculations based on CCRIF and authorities' data.

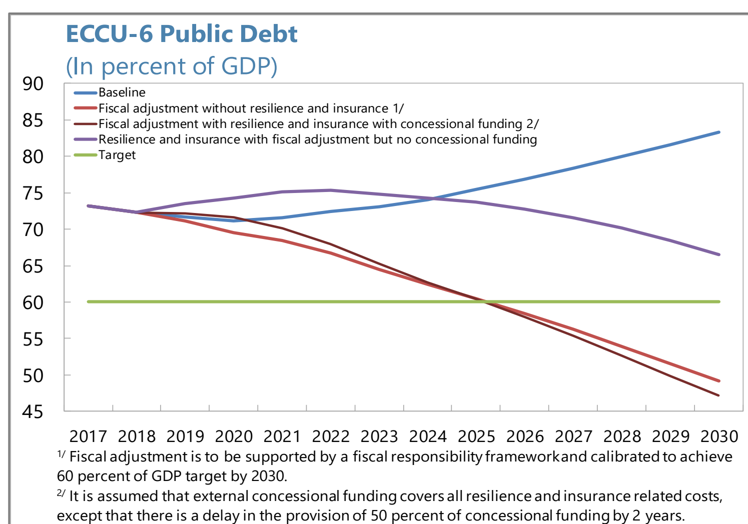
1/ The World Bank has developed a risk-layered framework for optimizing disaster risk financing, which has been applied to some ECCU countries. See World Bank, "Advancing Disaster Risk Finance in Saint Lucia", 2018; World Bank, "Advancing Disaster Risk Finance in Grenada", 2018.
2/ A saving fund would need to be supported by a strong institutional framework, establishing annual saving contributions and clear verifiable criteria for disbursements after natural disasters.
3/ IMF and World Bank staff is working on two options for further developing state-contingent debt instruments that could help countries better manage their debt-service payments at times of natural disasters. The first relates to sovereign insurance against natural disasters, where insurance is purchased to cover a specified amount of debt service payments following catastrophic disasters. The second option broadens the concept of "hurricane clauses" already used in two debt restructurings (Grenada and Barbados), where state-contingent features built into the debt contract allow for maturity extensions following disasters.

Fiscally Sustainable Strategy to Build Ex-Ante Resilience to Natural Disasters

21. Full integration of fiscal responsibility frameworks with resilient investment and insurance mechanisms would help the ECCU achieve a sustainable fiscal position while improving resilience to natural disasters, provided there is sufficient external support and strong policy implementation. The country-specific frameworks need to be based on a holistic diagnostic. The Climate Change Policy Assessment (CCPA) has been a valuable tool for St. Lucia to identify the needs and costs of building resilience.[11] Staff scenario analysis suggests that if ECCU countries undertake fiscal adjustment and phase in resilient investment and insurance buffers with support with the international community, the ECCU's public debt trajectory would decline at a faster pace than in a pure fiscal consolidation scenario without building resilience. The benefits would be further amplified beyond 2030, as the growth and fiscal benefits would continue while the costs of building resilience would decline. Ongoing initiatives to pool resources in regional institutions with

[11] In the ECCU, one pilot for this exercise—conducted by the IMF in cooperation with the World Bank—has been completed for St. Lucia (IMF Country Report No. 18/181) and another will soon be undertaken for Grenada.

accreditation to access climate funds should be supported and pursued in the near term. As mentioned above, staff simulations indicate that the additional costs of resilient investment and actuarially-fair insurance would create a financing gap of about US$100 million per year for the region,[12] with concessional financing, including from climate funds, being a key option.



1/ Fiscal adjustment is to be supported by a fiscal responsibility framework and calibrated to achieve 60 percent of GDP target by 2030.
2/ It is assumed that external concessional funding covers all resilience and insurance related costs, except that there is a delay in the provision of 50 percent of concessional funding by 2 years.

22. Countries should also continue advancing institutional fiscal reforms that would help with due diligence requirements of donor funds. This will require:

- **Addressing information, legislation gaps, and small economies of scale**. An assessment of general preparedness is necessary to identify priorities, including legislation and processes, such as budgeting and public investment management. Costed investment projects and risk financing plans are needed for an assessment of the overall financing needs. Regional coordination would help accelerate the process by setting standards, facilitate peer review, and create economies of scale.

Public Investment Management Heatmap [1/]

Countries	Planning	Allocating	Implementing	Average
Anguilla	Medium	Medium	Medium	Medium
Antigua & Barbuda	Low	Medium	Low	Low
Dominica	Low	Medium	Low	Low
Grenada	Medium	Medium	Low	Medium
Montserrat	Medium	Good	Medium	Medium
St. Kitts & Nevis	Low	Medium	Low	Low
St. Lucia	Low	Medium	Low	Low
St. Vincent & the Grenadines	Low	Medium	Low	Low
ECCU Average	Low	Medium	Low	Medium
Jamaica	Medium	Medium	Medium	Medium
Barbados	Medium	Medium	Medium	Medium

Source: Country Authorities and IMF Staff Assessments
[1] The scoring system reflects the alignment with good Public Investment Management practices. The assessment is based on the IMF's 2015 Public Investment Management Assessment template for assessing infrastructure governance over the invesment cycle.

Legend: Low / Medium / Good

- **Integrating resilience building with macroeconomic planning**. Expected costs of natural disasters should be included in macroeconomic frameworks, as well as costs and benefits of the resilience strategy, to evaluate the fiscal space needed for the implementation. Developing strategies to enhance access to donor grants will be crucial to making ex-ante resilience building sustainable.

- **Coordination of resilience building with fiscal responsibility legislation.** Fiscal responsibility legislation would underpin the necessary fiscal adjustment to ensure a credible overall strategy,

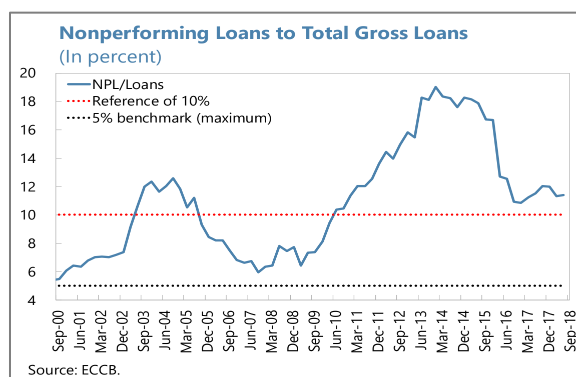
[12] The financing gap of US$100 should be considered as a lower bound estimate. Staff estimates indicate that the cost of all resilient projects and the full insurance would be about US$350 million per year for the region. This would imply a financing gap in the range of US$100-350 per year for the region. In the absence of enough support from the international community, resilience building would need to be scaled back and recalibrated to avoid un-anchoring the fiscal framework, which by itself would jeopardize resilience-building going forward.

fill financing gaps, and ensure the long-term sustainability of resilience financing. Public investment projects at risk of natural disasters should be resilient and appropriately designed and costed. Upon achieving the 60 percent anchor, it could be reviewed and tightened in line with minimizing a probability of exceeding the 60 percent of GDP ceiling given the expected fiscal costs of natural disasters. Fiscal responsibility could also incorporate minimum insurance coverage, effectively helping internalize expected fiscal costs of future disasters, and annual saving needs for the sustainability of the saving funds.

C. Strategy for Stability and Resolving Problems in the Financial Sector

23. There has been important progress on the regional financial sector reform agenda. This includes: (i) initial capitalization of the Eastern Caribbean Asset Management Company (ECAMC) as part of the ECCU's financial stability strategy for reducing high NPLs; (ii) issuance and implementation of the collateral valuation standard; (iii) implementation of risk-based supervision (RBS); and (iv) completion of on-site examinations of all banks within the three-year cycle established in the Banking Act 2015. In addition, the law to establish a credit bureau framework was passed in four member countries[13] and an operator was selected for licensing, the ECCB published the first Financial Stability Report, and an MOU was signed for a blockchain technology project which is targeted to, among other things, alleviate the risks of CBR withdrawal. A consultative paper on the consolidation of indigenous banks has been issued, the transfer of AML/CFT supervision for banks to the ECCB has been initiated, and the Monetary Council has considered a paper on the establishment of a Deposit Insurance Fund.

24. However, unresolved weaknesses in the banking sector magnify vulnerabilities. Despite recent progress in resolving banks,[14] outstanding problems are becoming more acute. Capitalization is above the regulatory standards, but provisioning by indigenous banks against legacy NPLs (as old as 15 years) is not adequate. The impending implementation of IFRS 9 and the new ECCB prudential standards on valuation of collateral and treatment of impaired loans will likely result in larger provisioning requirements that may require major capital augmentation and/or resolution measures, with possible fiscal costs. The replacement of global CBRs with a few, smaller correspondent banks suggest increased counterparty and concentration risks for banks in the region. The pending exit of foreign banks might heighten vulnerability of the affected countries in terms of



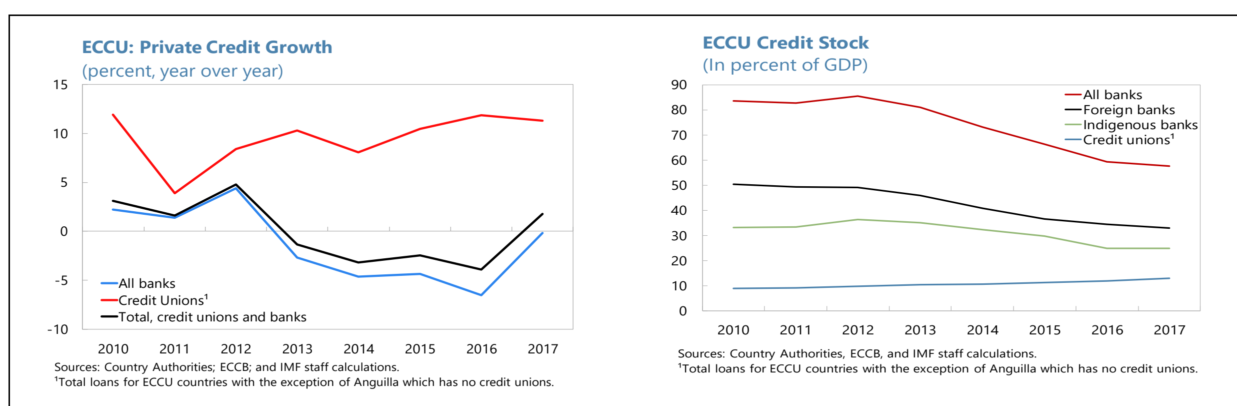
[13] Antigua and Barbuda, Grenada, St Kitts and Nevis and St Vincent and the Grenadines.

[14] The resolution of the two banks in Anguilla that were intervened in 2016 is nearing conclusion with the July 2018 signing of the put-back agreement for the transfer of nonperforming loans between the receiverships and the bridge bank, National Commercial Bank of Anguilla (NCBA). This step unblocked loan proceeds from the Caribbean Development Bank to fund the EC$59 million capital injection into NCBA. A committee has been established to deal with the sale of that bank to the private sector. The receiverships will be transferred to the ECAMC on completion of the independent valuation of disputed NPLs under the put-back transaction.

CBR access and costs. It may also increase withdrawal risks in some jurisdictions, while the related mergers could raise concentration risks in some member jurisdictions. Reportedly, some banks are also actively exploring opportunities for improved earnings from overseas placements and/or investments.

25. The region's strategy to address the chronic NPL situation within the rapidly closing timeline is at risk. The ECAMC, set up in July 2017 with the dual mandate to acquire bad assets from banks and other approved financial institutions (AFIs), and to act as the receiver of failed financial institutions, is operating, but progress towards acquisition of a critical mass of NPLs by the statutory July 2019 timeline has been slow. As of November 2018, no NPLs have been purchased and funding modalities are yet to be finalized.[15] The pace has improved materially with the ECAMC's recent hiring of an expert consultant and other capacity augmentation measures, as well as with the ECCB's instrumentality in following up with banks in sharing information with the ECAMC. The ECAMC has received information of a prospective portfolio of commercial NPLs to acquire of EC$400 million or 29 percent of total NPLs. However, the timeline is very tight and the risk of slippage is real.

26. The rapid increase of credit union lending and natural disasters has increased risks in the non-bank financial sector. While credit union assets represent only 9 percent of financial assets (Table 8), their lending growth has increased in recent years. Additionally, some credit unions have been de-risked by banks that apply know your customer's customer (KYCC) practices.[16] Their market share is significant in Dominica and large in Grenada, St Vincent and the Grenadines, and St. Lucia. The insurance sector, which is also relatively small (7 percent of financial assets) in a region exposed to catastrophic events, was hit hard by the 2017 hurricanes. The sector is also exposed to concentration risk—with two financial conglomerates representing almost half of the total insurance assets in the Caribbean.[17] Spillovers to banks through credit unions' and insurance companies' bank deposits and credit exposures are also a concern with potential sources of fiscal liability.



[15] The ECAMC Board approved the NPL Acquisition Proposal on November 29, 2018.

[16] Although FATF confirms that KYCC is not a requirement, this approach continues to be taken by some banks to mitigate risk of loss of CBRs.

[17] There is also concern for deepening concentration in certain member jurisdictions with pending sales of a large insurer's portfolios to a smaller operator.

27. Weak supervision and oversight of the non-bank financial sector increases financial system risks. Regulatory oversight and supervision of credit unions, insurance companies, building and loan societies, offshore bank and non-bank financial institutions, and a wide span of other non- bank financial institutions is undertaken by national authorities, who have acknowledged deficiencies in terms of fragmented supervisory frameworks, inadequate resources given the scope of oversight responsibilities, weak enforcement powers, and data gaps. A healthy private insurance sector is critical in the region to support risk sharing for natural disasters.

28. Intensified efforts are necessary to fully operationalize the ECAMC's mandates. The acquisition of a critical mass of commercial NPLs at realizable market values should be completed by the July 2019 deadline. While non-government sources of financing are being sought, funding for the acquisitions of NPLs may have fiscal implications to the extent that government guarantees may be required.[18] Consistent with IMF technical assistance, staff recommends that, absent adequate progress to meeting the deadline, ECAMC's operations should be promptly downscaled to receivership or wound up—with the receivership operations returned to individual receivers. Completing urgently the modernization of the insolvency and foreclosure laws and easing restrictions on non-citizen property ownerships will help maximize NPL recovery and minimize potential fiscal costs.

29. Further timely actions are needed to address current and emerging risks. The ECCB should: (i) establish and enforce a realistic plan for banks to reduce NPLs to no more than 10 percent by end-2019 and attain the 5-percent benchmark for NPLs by end-2023; (ii) require banks to submit credible, time-bound action plans to improve provisioning and resolve NPLs, especially large CBI- related NPLs in one territory, and dispose of non-core assets within statutory timelines;[19] (iii) promptly issue and implement its prudential standards on the treatment of impaired assets; (iv) closely monitor banks' progress to plans and appropriately utilize statutory powers to ensure that banks adhere to their NPL resolution plans, fully comply with prudential standards on collateral valuation and provisioning, enhance risk management and strengthen capital; and (v) accelerate the consolidation of indigenous banks to attain sustainable critical mass and act quickly with any undercapitalized banks. The ECCB should also focus on assessing and mitigating risks that may arise from institutions seeking better returns overseas.

30. Plans for the resolution of weak non-bank institutions need to be established and implemented by country authorities, in collaboration with the ECCB. These plans need to be supported by effective coordination among the relevant agencies and governments and appropriate crisis management and resolution measures, including for effective (i) intervention of problem entities, (ii) management of system impact (e.g. liquidity), and (iii) communications. Moreover, the large impact of natural disasters on the financial position of insurance firms suggests that specific

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[18] The ECAMC Act contemplates that government guaranteed bonds would be used to fund the acquisition of NPLs.

[19] The ECCB has required the reclassification of the 2015 debt-land-swap from financial to fixed assets in the balance sheet of banks. This will require that the land be sold within a timeframe of 5 years, consistent with ECCB regulation (Section 55(3) of the Banking Act for the ECCU).

focus must be placed on establishing and enforcing appropriate risk mitigation standards and practices (e.g. minimum investment criteria and reinsurance standards).

31. Strategies to minimize the risk of a potential decline in CBRs and related increased costs, de-risking of downstream financial institutions by banks, and exit of foreign banks should be finalized and implemented. This should include: (i) specific monitoring of banks' CBRs, considering the reporting template developed by the IMF ; (ii) intensified information sharing and relationship building with current and prospective correspondent banks and their oversight authorities, including involvement of the ECCB at appropriate levels; (iii) strengthening and harmonization of the regulatory and AML/CFT oversight framework for banks and non-bank financial institutions, including urgent passage and implementation of legislation designating the ECCB as Supervisory Authority for AML/CFT for banks by all remaining territories;[20] (iv) timely completion of national risk assessments; and (v) enhanced governance, qualifying criteria, transparency, due diligence and penalties/sanctions relating to any abuse of CBI programs. Strategies should also address the issue of banks' size and scale to maintain CBR minimum transaction thresholds.

32. Prompt completion of the financial sector reform agenda is critical to preserve financial stability. A prompt finalization of the harmonized, strengthened laws on credit unions (and building and loan institutions) and the insurance, pension, and securities subsectors is needed to improve the regulatory framework for non-banks.[21] Effective consolidation of regional financial sector oversight, with the ECCB having supervisory responsibility for all deposit taking institutions and another agency mandated to supervise the non-deposit taking financial sector will maximize cohesive coverage and mitigate resource and skills constraints.[22] In line with previous ECCU consultation's advice, the ECCU minimum saving deposit rate should be eliminated, or at least gradually phased out, given its distortionary nature.[23]

33. The last update of the safeguards assessment of the ECCB, completed in 2016, concluded that governance arrangements are sound. Recommendations of the assessment have since been implemented, and the annual financial statements continue to be prepared and audited in accordance with international practices.

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[20] To date only three-member countries have enabling legislation in place and named the ECCB as AML/CFT Supervisor.

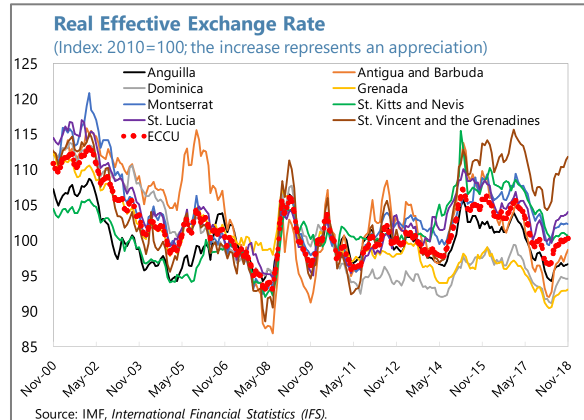
[21] While a Harmonized Co-operative Societies Act was enacted between 2010 and 2012 by all but two countries, implementation—including for credit unions—remains outstanding as regulations to govern implementation of the Act continue to be subject to ongoing consultation and revisions among national regulators.

[22] There is also an immediate need for country financial regulatory authorities to be adequately resourced to allow for effective non-bank financial sector oversight in the interim, while the harmonized laws are finalized and implemented and until the consolidated regional architecture is established.

[23] The MSR increases lending rates and reduces banks' profitability, slowing capitalization and NPL reduction prospects. The authorities have argued that the MSR was set for a social objective to stimulate savings and provide additional income to households.

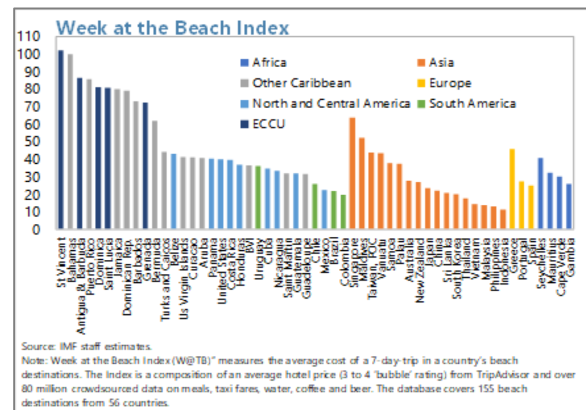
D. Competitiveness and Growth

34. The external position of the ECCU in 2017 was weaker than implied by medium-term fundamentals and desirable policies. The external sector assessment indicates that the real effective exchange rate (REER) in 2017 was overvalued by about 5.9 percent on average.[24] Despite the REER depreciation of 4.2 percent in 2017 on account of a weakening U.S. dollar, the REER model also shows an overvaluation in 2017 (Annex III). Since then, the REER appreciated slightly through November 2018. The weak external position partly reflects fiscal imbalances.



35. Large current account deficits and high unemployment indicate low competitiveness. The region faces formidable structural constraints, including high costs of electricity, trading, and unit labor; labor skill mismatches; an unfavorable business climate, particularly for the difficulties in resolving insolvencies and getting credit; and public-sector inefficiencies. Despite some efforts to alleviate these constraints in recent years, progress has been slow (Figure 6).

36. Notwithstanding the advantage of proximity to North-American markets, ECCU tourism has seen its global market share decline, partly reflecting lack of competitiveness. Staff analysis shows that the ECCU enjoys a competitive advantage for its proximity to North-American tourist market (Annex VI). However, despite the reputation of ECCU countries as high-end tourist destinations, tourist inflows to these countries are price sensitive, and the product offered is relatively expensive when compared with other tourist destinations globally. This may reflect supply-side constraints, and particularly high electricity costs and tariffs. Staff analysis shows that relaxing these constraints could increase the ECCU market share by 40 percent.



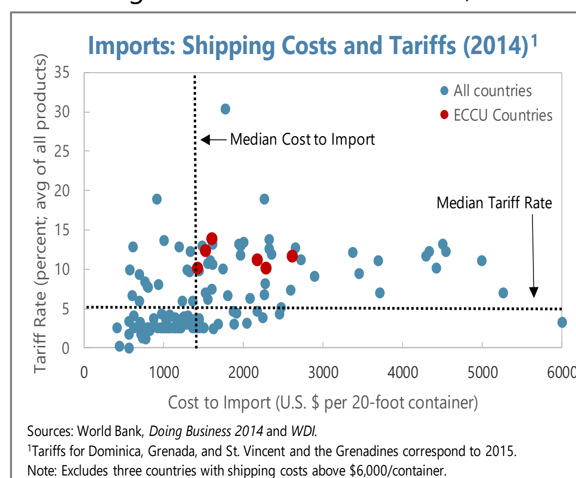
37. Structural reforms are needed to improve the external position and boost competitiveness and growth. Priority areas include the business climate, tariffs and regional integration, labor markets and education, and public-sector efficiency.[25] Faster progress of new

[24] The external assessment also shows that the REER overvaluation would increase to 14.6 percent if CBI flows were excluded.

[25] As part of its 2017-21 strategic plan, the ECCB has committed to support member countries to achieve a top-50 ranking on the World Bank's Doing Business Index in the next three years. This will include policy advice and quarterly consultations to reform processes and support specific initiatives, including the establishment of a modern land registry.

legislation on foreclosure, insolvency and credit bureaus is key to address the ease of getting credit, the most critical areas of business climate according to Doing Business Indicators and other business surveys. To lower electricity costs and attain their emission targets under the Paris accord, countries should accelerate implementation of their investment strategies in renewable energies while actively engaging the private sector. Tariff cuts under the CARICOM regime would help enhance competition and reduce high import prices, while further regional integration is necessary to address the small size of internal markets and high costs. On labor markets and education, the comprehensive technical and vocational skills program, adopted for instance by Grenada, promises to better align the supply of skills to the broader needs of the economy. The introduction of new technologies in the public sector have the potential to significantly enhance its efficiency. Finally, as discussed above, the implementation of a strategy to build resilience to climate change and natural disasters would have positive spillovers on competitiveness and growth.

Imports: Shipping Costs and Tariffs (2014)[1]



Sources: World Bank, *Doing Business 2014* and *WDI*.
[1]Tariffs for Dominica, Grenada, and St. Vincent and the Grenadines correspond to 2015.
Note: Excludes three countries with shipping costs above $6,000/container.

AUTHORITIES' VIEWS

38. The authorities broadly agreed with staff's assessment of the economic outlook and risks. They saw however more upside to near-term economic momentum, estimating growth around 3.0 percent in 2018 and 2019. They also emphasized that the continuing multi-year decline in the public debt ratio is a positive signal, notwithstanding the contribution of temporary factors, in some countries, to the dynamics. They noted that banking sector metrics were also gradually improving, as reflected in a positive rate of growth of bank credit to the private sector as of mid-2018, driven by solid loan growth to private businesses.

39. The authorities agreed with the primacy of the 2030 debt target and strategies to achieve it. They indicated that medium-term fiscal frameworks consistent with reaching the 60 percent of GDP target had been prepared in the six ECCU countries. Some of the countries had already tabled those frameworks in parliament, while in others, the process was ongoing. 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. The authorities agreed with the need for a prudent fiscal stance that would address fiscal risks going forward, including in countries that are already close to achieving the 60 percent of GDP debt target.

40. At the same time, views were mixed on the need for legally-binding fiscal responsibility frameworks. Most countries were weighing the merits of adopting formal fiscal responsibility legislation (FRL) to solidify progress and build fiscal resilience. With this in mind, they were also consulting with the Grenadian authorities and other stakeholders to assess their experience with the implementation of FRL's provisions, including with independent oversight arrangements

such as the Fiscal Responsibility Oversight Committee in Grenada. In this context, a key takeaway highlighted by the Grenadian authorities in the success of the FRL was its broad political backing through a social compact. One country authority considered that, in the absence of extensive punitive sanctions for non-compliance in most existing FRLs, these were not suitable for codification in legal norms but rather could be adopted as government or parliamentary declarations of fiscal responsibility. Several country authorities stressed the need for FRLs to be compatible with promoting growth opportunities in the region and expressed some concern that their implementation could de-facto constrain public investment.

41. The authorities expressed broad agreement on the need for resilient investment and higher insurance coverage. They explained that fiscal sustainability and competing developmental needs imply significant opportunity costs. In some countries, staff estimates for self-insurance was deemed insufficient given the increasing frequency of non-catastrophic events due to climate change. Furthermore, though highly supportive of CCRIF and appreciative of the immediate liquidity it offers for catastrophic events, countries did recognize the imperfect nature of parametric instruments.

42. They highlighted the high costs of an ex-ante resilience strategy, especially in light of competing development needs and fiscal challenges. They agreed on the importance of developing integrated national resilience strategies including detailed projects, execution timeline, and costing. They explained that although such strategies were not fully developed within a unified framework, their public investment plans included specific resilient investment projects, while budgets included CCRIF insurance costs, although insurance coverage was below the desired level. The authorities agreed that insurance expense supports fiscal sustainability by de-facto internalizing natural disasters' expected losses and cost recovery in the form of insurance payouts. However, they noted CCRIF and market insurance instruments are expensive. Most authorities were supportive of the creation of saving funds for natural disasters, but were concerned about the size needed to insure against large and recurrent disasters. Most authorities also noted that CBI programs, a potential source of financing for resilience building, are being undermined by their inclusion in the OECD published list of schemes susceptible to facilitating tax evasion and illicit financial flows. All authorities called on the international community to provide more financial assistance for the implementation of these ex-ante resilience strategies.

43. Governments noted the onerous requirements of grant and climate fund financing. They explained that administrative requirements for application and disbursement from climate funds are complicated, not always commensurate with human resource and capacity constraints of small states, and that the neglect of vulnerability as a criterion for ODA accessibility penalizes middle-income Caribbean states. They expressed understanding of donor funding's due diligence requirements and asked for technical assistance to address any reasonable gaps. They urged the international financial community to collaborate in support of the simplification of grant financing administrative burden and disbursement process and for the inclusion of vulnerability among the criteria eligibility for concessional financing.

44. The authorities broadly agreed on the principal areas of risk to financial sector stability. These center largely on (i) slow resolution of high NPLs and insufficient provisioning,

particularly in indigenous banks; (ii) de-risking pressures and lack of access to replacement global CBRs, which appear to be linked to the lack of "critical mass" to meet minimum transaction thresholds; and (iii) emerging risks and vulnerabilities in the near-bank and non-bank financial sector (inclusive of the credit union and insurance sectors) where oversight arrangements have not kept pace with the rapid growth of near-bank institutions. The authorities emphasized the need for urgent collaboration for realistic solutions to de-risking to be agreed to and supported by all international stakeholders.

45. The authorities acknowledged the importance of implementation of IFRS 9 and the new prudential standards to incentivize banks to clean up their books. They also noted the potential fiscal implications regarding banks making the requisite adjustments. The ECCB indicated that it would take supervisory steps to address these issues. While the mandate and success of the ECAMC as a strategy to effectively reducing system NPLs is fully supported by the authorities, funding for NPL acquisitions should be premised predominantly on private sector options as issuance of government guarantees is inconsistent with the debt target.

46. The authorities expressed commitment to the acceleration of key reforms to upgrade and strengthen the financial sector regional oversight framework. The ECCB indicated that indigenous banks are being encouraged to implement functional cooperation including sharing services and costs, as a first step for more consolidation. While most country authorities expressed general agreement on consolidating the regional financial sector oversight framework (the plan currently contemplates three regional agencies), concerns were raised on ensuring adequate funding and staff resources. The ECCB was viewed by some as the only agency in the region with the necessary skills, resources, infrastructure and capacity to effectively undertake the responsibility, while concerns were raised about the risk to effectiveness that will arise with lack of on-the-ground regular contact/follow-up and in-depth knowledge of institutions. The ECCB concurred that there is sound basis for re-looking the plans to ensure effective, coordinated oversight, including strengthened AML/CFT supervision, and broaden its supervisory parameter consistent with its financial stability mandate. The ECCB also shared its focus on Fintech and the issuance of digital fiat currency given their potential for growth, financial inclusion, competitiveness, and mitigating AML and governance issues.

47. The authorities agreed on the need to bolster competitiveness in the context of the quasi-currency board arrangement. The authorities expressed the view that high prices of ECCU tourism reflect quality considerations, but they agreed that the cost structure in the region is relatively high compared with other tourist destinations, which might help explain the declining share of the ECCU in global tourism. On structural bottlenecks, the authorities pointed to the ECCB's efforts in helping improve the ECCU countries' ranking in the Ease of Doing Business Index with the aspiration to break into the top fifty in the next three years. The authorities stressed the importance of enhancing connectivity, a regional credit bureau, modern land and property registries and harmonized border regulations to create a more efficient regional market for all factors of production and enhanced tourism accessibility. They also stressed that innovative solutions, including opportunities provided by Fintech to reduce the use of cash, have the potential to reduce transaction costs while hardening the financial system against crime.

STAFF APPRAISAL

48. Growth is gradually recovering in 2018 following the adverse economic impact of natural disasters in 2017. Growth declined substantially in 2017 mainly owing to Hurricanes Irma and Maria. The growth outlook is favorable in the near term, but it is subject to increasing risks. Natural disasters are becoming more frequent and intense, compounding these vulnerabilities.

49. A paradigm shift from post-disaster recovery to building ex-ante resilience to natural disasters should be a key policy priority. The growing recurrence and intensity of natural disasters and the gradual effects of climate change require a comprehensive ex-ante resilience strategy, including by scaling up resilient investment and insurance cover against natural disasters. Fiscal sustainability is a necessary precondition for such a shift in strategy.

50. Robust fiscal responsibility frameworks are needed to underpin the region's debt target, while improving economic performance and enabling resilience building. Based on current policies, public debt in most countries is on an upward trend, diverging from the ECCU target of 60 percent of GDP by 2030. Well-designed country-specific frameworks will help reverse debt dynamics, create fiscal space, and enable fiscal policy to become more counter-cyclical.

51. The frameworks should be anchored by the ECCU public debt target of 60 percent of GDP by 2030. Within this common umbrella, each country could have the flexibility to select operational and institutional elements that best fit its conditions, to be codified in national norms. A credible focus on the debt objective would entail some form of a medium-term fiscal balance target, which should exclude volatile items such as CBI inflows. Precise escape clauses will also be needed to allow flexibility while preserving credibility. Simple medium-term expenditure targets could play a useful complementary role to contain pro-cyclicality. Key supporting institutions and strong and broad-based political commitment would be essential to underpin those efforts.

52. Investment in resilient public capital would have a significant impact on economic growth. Staff estimates suggests that resilient infrastructure would raise potential output by 3– 11 percent, with an annual growth-dividend of 0.1–0.4 percent in ECCU countries. This is because resilient public capital reduces damages from natural disasters and increases expected returns to private investment and output. Resilient investment would have further durable expansionary effects through an increase in employment and wages and a decline in out-migration.

53. To ensure liquidity for relief and reconstruction while protecting public finances, increased insurance coverage should be considered within a layering framework. This could include: (a) creating saving funds for self-insurance as soon as feasible–with CBI resources financing startup costs where available; (b) maximizing CCRIF coverage; and (c) considering state-contingent sovereign debt for extreme disasters. As structures become more resilient, insurance needs would decline in the long-term to about 1/4 of the current level.

54. Resilient investment and insurance are costly, requiring additional resources in an initial phase before payoffs from resilience building materialize. Upfront costs of resilient

infrastructure would make it difficult to attain the ECCU debt target of 60 percent of GDP by 2030. Assuming that countries undertake the much-needed fiscal adjustment to meet the debt target, staff analysis indicates that investment in resilience would create a substantial financing gap for the countries, with concessional financing from the international community, including climate funds, being a key option that enables countries to improve resilience to natural disasters while adhering to the debt target.

55. Despite important progress on the regional financial sector reform agenda, further timely actions are needed to address current and emerging risks. The ECCB should: (i) establish and enforce a realistic plan for banks to reduce NPLs—especially large CBI-related NPLs—and dispose of non-core assets within statutory timelines; (ii) promptly issue its prudential standards on the treatment of impaired assets; and (iii) use ECCB's statutory powers to ensure that banks adhere to mandated prudential standards and enhance risk management, including requiring them to take measures to strengthen capital. The ECCB should also focus on assessing and mitigating risks that may arise from institutions seeking better returns overseas. Strategies to minimize the risk of a potential decline in CBRs and related increased costs, de-risking of downstream financial institutions by banks, and exit of foreign banks should be finalized and implemented.

56. Intensified efforts are necessary to operationalize the ECAMC's mandate. The acquisition of a critical mass of commercial NPLs at realizable market values should be completed by the July 2019 deadline. Absent adequate progress, ECAMC's operations should be promptly downscaled to receivership or wound up. Completing urgently the modernization of the insolvency and foreclosure laws and easing restrictions on non-citizen property ownerships will help maximize NPL recovery and minimize potential fiscal costs.

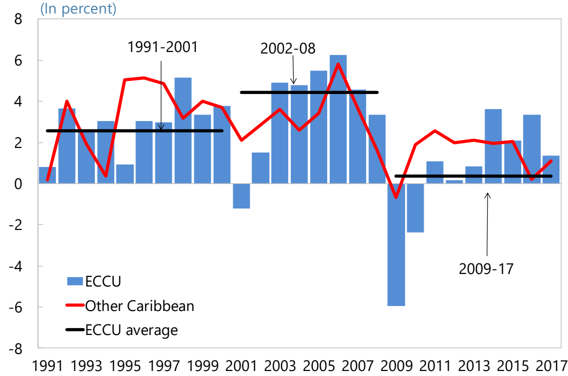
57. Prompt completion of the financial sector reform agenda is critical to preserve financial stability. Plans for the resolution of weak non-bank institutions need to be established and implemented by country authorities, A prompt finalization of the harmonized laws on credit unions (and savings and building institutions) and the insurance, pension, and securities subsectors is needed to improve the regulatory framework for non-banks. An effective consolidation of regional financial sector oversight for banking and non-banking financial sectors will maximize cohesive coverage and resource and skills constraints. The ECCU minimum saving deposit rate should be eliminated, or at least gradually phased out, given its distortionary nature.

58. In addition to fiscal consolidation, injecting new vigor into the structural policy agenda will help enhance competitiveness and make growth more inclusive. The external position is weaker than implied by medium-term fundamentals and desirable policies. Fiscal consolidation will help address the real exchange rate overvaluation in the context of the quasi-currency board. Long- term and consistent commitment to implementing structural reforms in investment and business climate, public sector efficiency, reducing energy and transportation costs and tariffs, labor market reforms, and regional integration will be instrumental in enhancing the region's competitiveness.

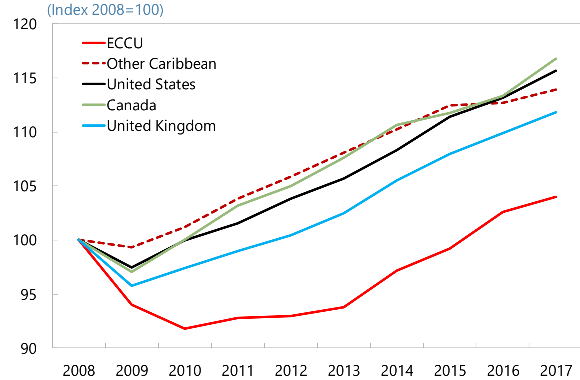
59. The discussion with the ECCU authorities will be on the 12-month cycle in accordance with Decision No. 13655-(06/1), as amended.

Figure 1. ECCU: Real Sector Developments

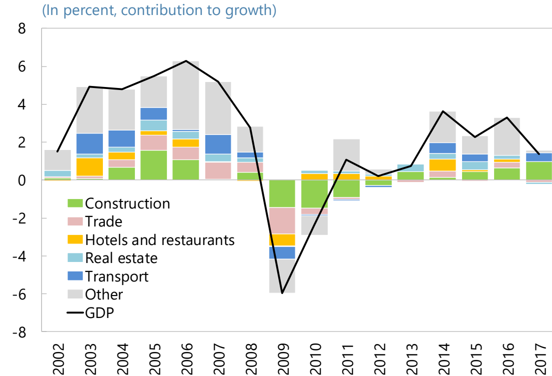
The impact of the global financial crisis was particularly strong in the ECCU…



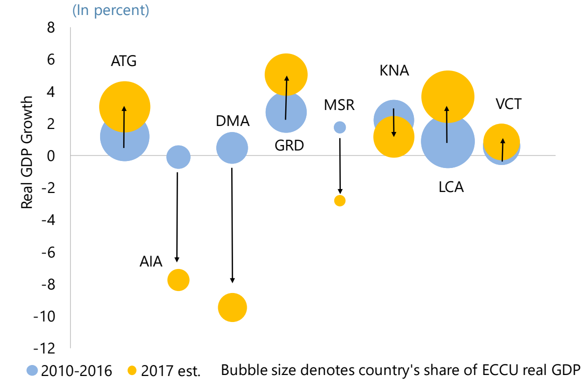
…and the economic recovery was initially slower than elsewhere.



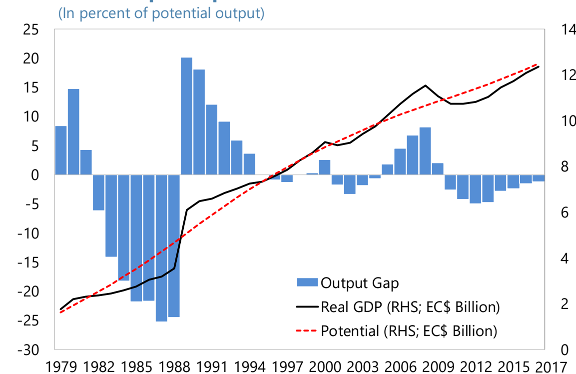
Activity however slowed down in 2017…



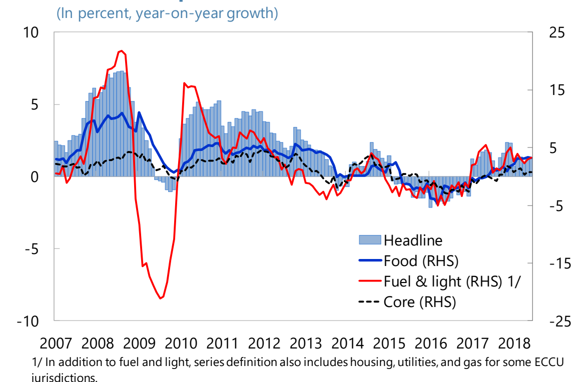
…reflecting large output contractions in small countries hit by Hurricanes Irma and Maria.



Output remained below potential…



…but rising fuel and commodity prices pushed up inflation.

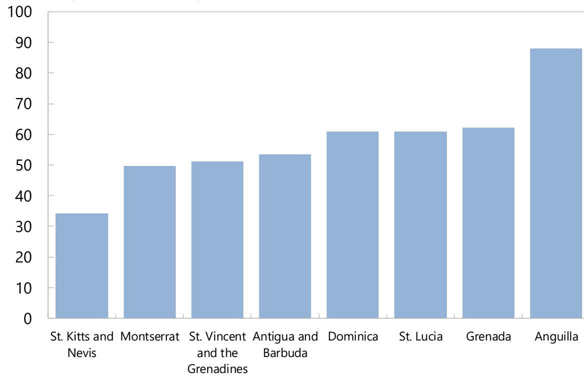


1/ In addition to fuel and light, series definition also includes housing, utilities, and gas for some ECCU jurisdictions.

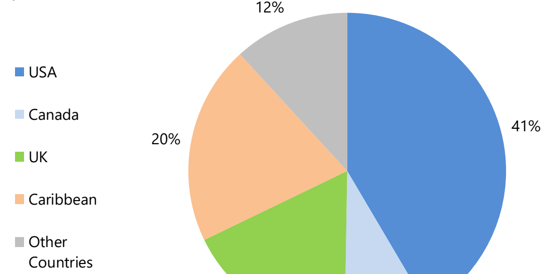
Source: Country authorities, ECCB and Fund staff calculatioı

Figure 2. ECCU: Tourism Developments

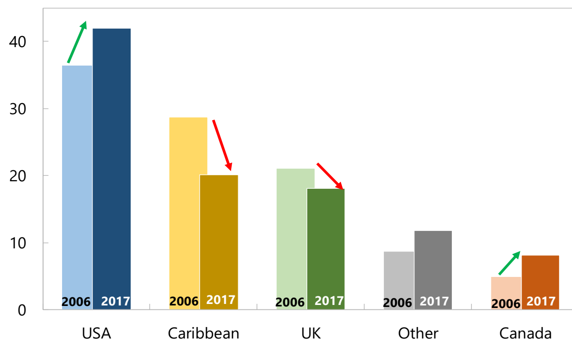
Tourism is a key component of ECCU exports.



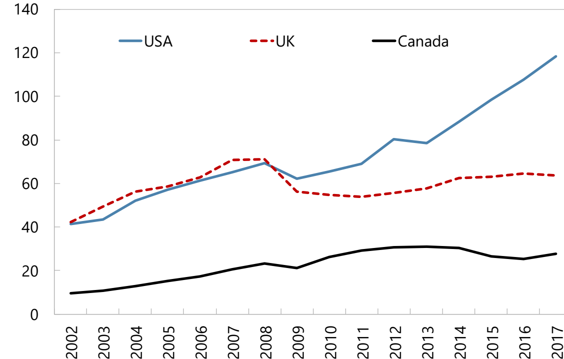
Almost ¾ of tourists come from North America and the U.K...



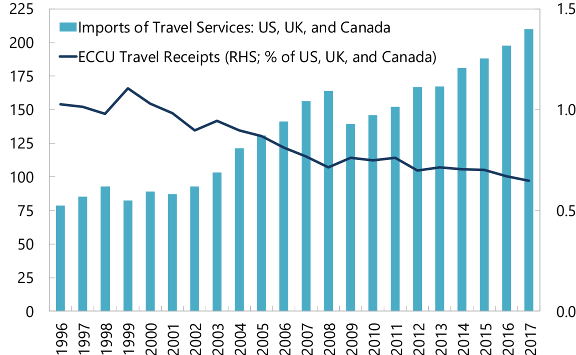
...and dependence on North American markets has increased further in the last decade.



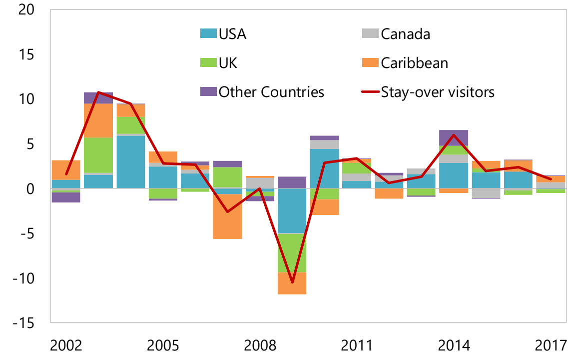
Tourism demand has increased in source markets, particularly in the US...



... but the ECCU's share of these markets has continued to fall.



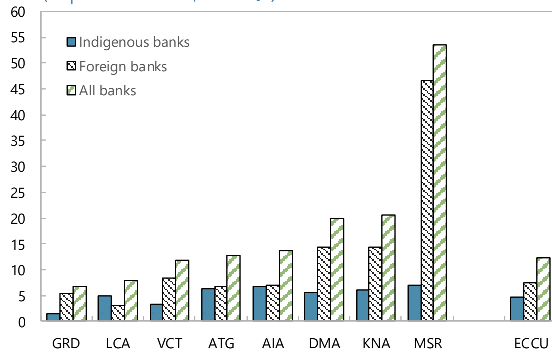
Stayover arrivals decelerated in 2017, with only Canadian and Caribbean travelers growing.



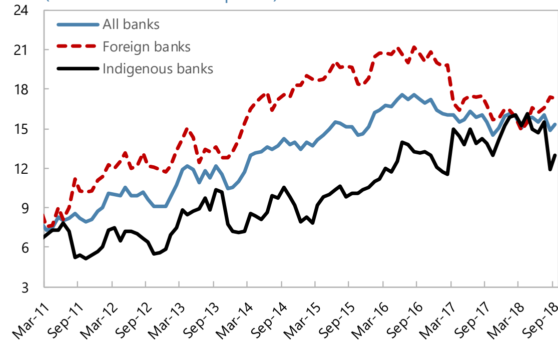
Sources: ECCB, CTO and Fund staff calculations.

Figure 3. ECCU: Monetary Developments

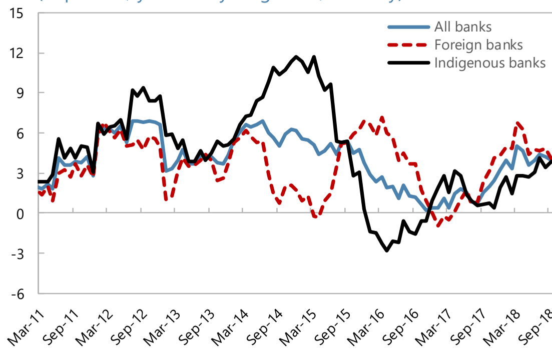
Excess reserves remain elevated in most jurisdictions …



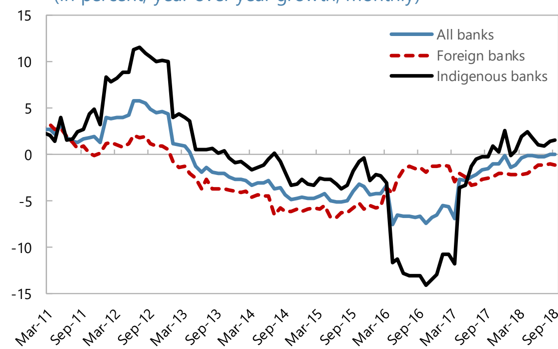
… but started declining recently in foreign banks.



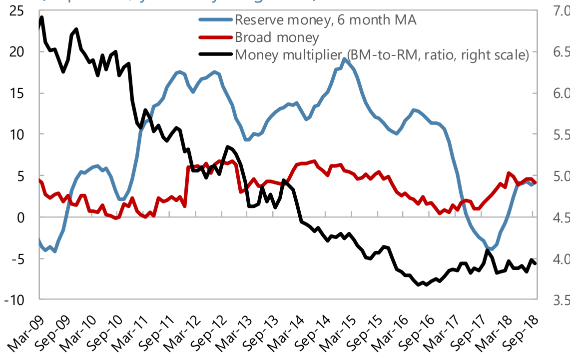
Amidst continued deposit growth…



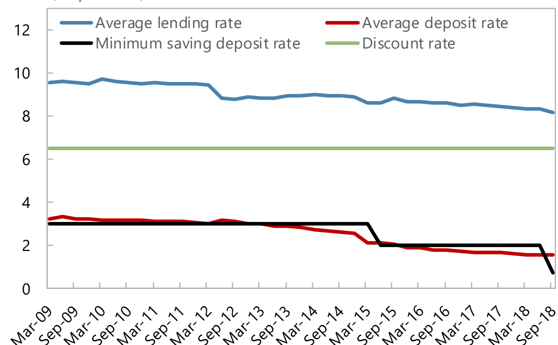
…this reflected some recovery of bank lending.



Monetary growth also accelerated slightly…



…with no significant change in monetary policy, and average deposit rates falling below the minimum savings rate.

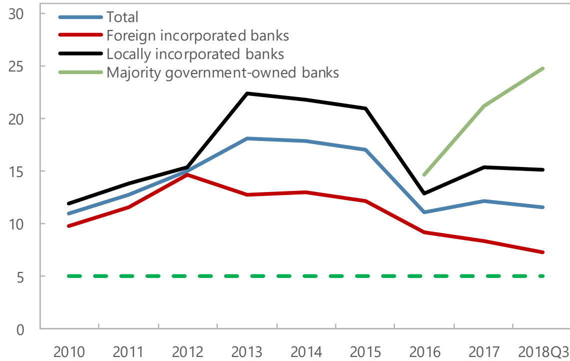


Source: ECCB

Figure 4. ECCU: Financial Soundness Indicators

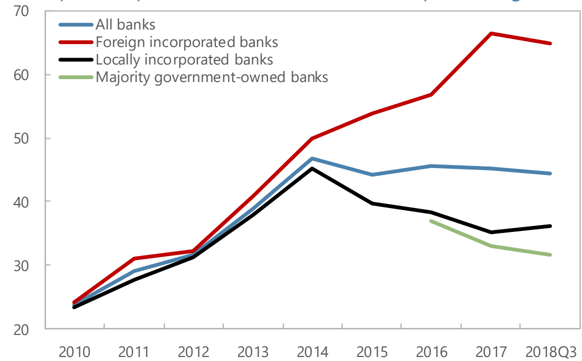
NPLs stopped declining in locally incorporated banks, particularly in public banks…

Nonperforming Loans
(In percent of total loans)



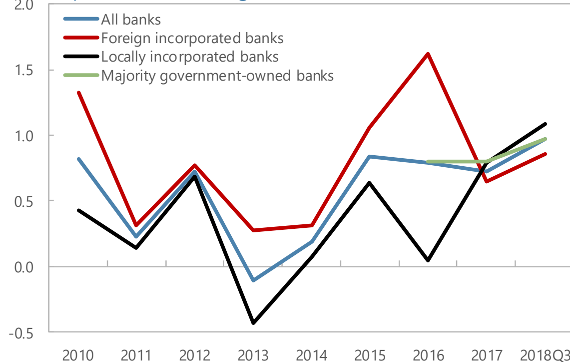
…while provisioning has increased significantly only in foreign incorporated banks

Provisions to Nonperforming Loans
(In percent, provisions for loan losses to nonperforming loans)



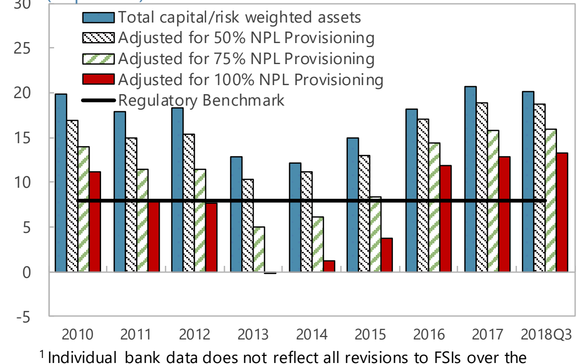
Profitability has recovered but remains very low….

Return on Assets
(In percent, net earnings before tax to total assets)



… while capital is above the regulatory standards.

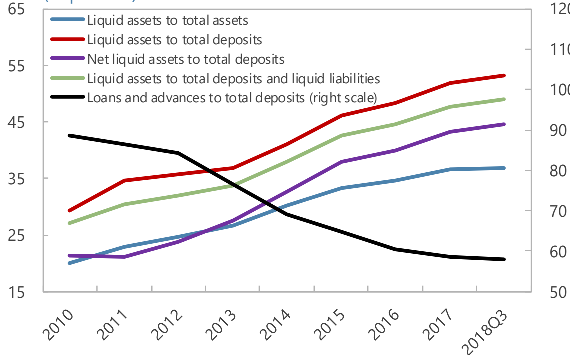
Locally Incorporated Banks' Capital Adequacy [1/]
(In percent)



[1] Individual bank data does not reflect all revisions to FSIs over the

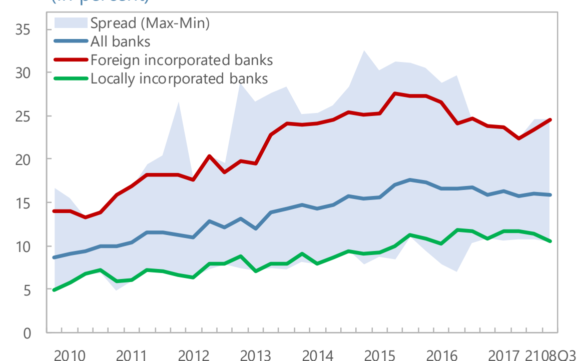
Excess liquidity may have peaked ….

Commercial Banks's Liquidity
(In percent)



… particularly in foreign banks.

Cash Reserves to Total Deposits
(In percent)



Source: ECCB and Fund staff calculations

Source: Country Authorities; ECCB; and IMF Staff Calculatio

Figure 6. ECCU: Doing Business Indicators 1/

Sources: World Bank 2018 Doing Business Indicators; and Fund staff calculations.
1/Distance to frontier (DTF) score measures the deviation of a country from the best perfomer, 0 representing the worst performer and 100 the fontier. 2/Smaller numbers represent greater ease in doing business. 2018 Doing Business rankings a across 190 countries. Annual rankings are rebased to adjust for different sample sizes. These indicators should be interprete with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

Table 1. ECCU: Selected Economic and Financial Indicators, 2014–24 1/

Social and Demographic Indicators (ECCU-6 only)

Population (2017)		Health (per 1,000 people)	
Total (thousands)	627.9	Physicians (latest weighted avg.)	0.7
Annual rate of growth, 2000−2017 (percent)	2.1	Hospital beds (2011 weighted avg.)	2.7
		Life expectancy at birth (years)	74.1
Population characteristics		GDP (2017)	
Crude birth rate (per thousand, latest weighted avg.)	16.3	In nominal US$ millions	6,754
Crude death rate (per thousand, latest weighted avg.)	7.5	Per capita	10,756
Arable land (percent of land area, 2011 weighted avg.)	9.3	Area (sq. km, 2013)	2,790

				Prel.				Proj.			
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	(Annual percentage change)										
National income and prices											
Real GDP	3.6	2.1	3.4	1.4	2.2	3.9	3.1	2.5	2.3	2.2	2.1
GDP deflator	1.9	3.3	1.0	1.3	1.8	2.0	1.8	1.8	1.9	1.9	2.0
Potential GDP growth (HP filter)	1.8	2.0	2.1	2.3	…	…	…	…	…	…	…
Consumer prices, average	1.1	-0.8	-0.8	1.1	1.8	1.9	1.7	1.8	1.9	1.9	1.8
Monetary sector											
Liabilities to the private sector (M2)	8.2	4.1	0.8	4.6	4.0	5.0	4.5	4.4	4.2	4.1	4.2
Net foreign assets	42.5	31.7	13.3	15.6	5.8	4.0	1.8	4.4	6.8	7.0	7.5
Of which											
Central bank	20.8	10.6	8.4	3.3	6.1	5.5	0.9	1.3	4.1	6.1	5.4
Commercial banks (net)	248.9	101.3	22.2	35.2	5.4	2.2	3.0	8.2	10.0	8.0	9.8
Net domestic assets	-3.3	-9.5	-8.1	-5.0	2.0	6.2	7.5	4.3	1.5	0.9	0.3
Of which											
Private sector credit	-4.6	-4.3	-6.5	-0.1	0.6	1.3	1.2	1.6	1.8	1.9	2.0
	(In percent of GDP)										
Public sector											
Primary central government balance (incl. natural disasters)	1.4	3.1	4.3	2.5	2.4	-1.3	-0.9	-0.8	-0.8	-1.0	-1.1
excl. Citizenship by Investment Prog.	-1.2	-0.9	0.1	-0.7	-0.9	-2.7	-2.1	-1.7	-1.6	-1.6	-1.6
Overall central government balance (incl. natural disasters)	-1.4	0.5	1.8	0.1	-0.2	-3.5	-3.2	-3.2	-3.3	-3.6	-3.8
excl. Citizenship by Investment Prog.	-3.9	-3.5	-2.4	-3.1	-3.5	-5.0	-4.4	-4.1	-4.0	-4.2	-4.3
Total revenue and grants	26.7	28.4	29.3	28.1	28.0	25.9	24.9	24.5	24.3	23.9	23.8
Total expenditure and net lending	28.0	27.9	27.5	28.1	28.2	28.5	27.2	26.8	26.6	26.6	26.6
Foreign financing	1.1	-0.6	0.1	0.8	0.9	1.2	1.0	0.3	0.0	-0.1	-0.1
Domestic financing including arrears	0.1	0.3	1.0	1.4	2.5	1.9	2.0	2.3	2.5	3.0	3.0
Central government current account balance	0.8	2.0	3.3	2.0	1.5	-0.2	-0.1	-0.2	-0.3	-0.3	-0.3
Total public debt (end-of-period) 2/	80.9	76.2	73.8	72.1	71.1	70.3	69.5	69.7	70.3	70.8	71.1
	(Annual percentage change)										
External sector											
Exports, f.o.b.	n.a.	-12.1	-14.4	-8.1	4.3	5.6	5.3	4.5	5.7	5.0	5.3
Imports, f.o.b.	n.a.	-5.1	3.9	4.2	11.6	3.5	3.6	3.0	2.5	3.2	3.2
	(In percent of GDP)										
External current account balance	-5.4	-4.3	-7.7	-8.0	-8.7	-8.8	-9.3	-8.6	-7.7	-7.1	-6.7
Trade balance	-31.1	-28.4	-29.1	-30.0	-32.5	-31.6	-31.2	-30.7	-30.1	-29.8	-29.4
Services, incomes and transfers	25.7	24.1	21.4	22.0	23.7	22.8	21.9	22.1	22.4	22.7	22.7
Of which											
Travel	40.2	38.9	37.3	37.3	37.9	38.3	38.5	38.5	38.6	38.7	38.7
Capital minus financial accounts	6.2	2.8	9.7	8.0	8.7	8.8	9.3	8.6	7.7	7.1	6.7
Of which											
Foreign direct investment	-9.0	-8.6	-8.8	-7.1	-7.8	-8.0	-7.9	-7.8	-7.6	-7.5	-7.5
External public debt (end-of period)	44.0	41.0	40.0	38.5	38.0	37.1	36.3	35.9	35.2	34.6	33.7
External debt service, percent of goods and nonfactor services	6.3	3.5	5.1	5.9	5.5	5.1	6.0	4.3	4.3	4.2	4.1
Of which											
Interest	1.9	1.9	1.9	1.9	2.0	2.1	2.1	2.1	2.1	2.1	2.1
Saving-Investment Balance	-5.4	-4.3	-7.7	-8.0	-8.7	-8.8	-9.3	-8.6	-7.7	-7.1	-6.7
Saving	8.7	9.3	6.0	4.1	4.2	4.6	3.0	3.2	3.9	4.4	4.8
Investment	14.1	13.5	13.7	12.1	12.9	13.5	12.3	11.9	11.6	11.5	11.5
Reserves											
In millions of U.S. dollars	1,411	1,560	1,690	1,745	1,852	1,953	1,970	1,996	2,077	2,204	2,323
In months of current year imports of goods and services	4.7	5.3	5.4	5.4	5.4	5.3	5.2	5.1	5.1	5.3	5.4
In percent of broad money	25.3	26.9	28.9	28.5	29.1	29.2	28.2	27.4	27.4	27.9	28.2
REER (average annual percentage change)											
Trade-weighted	0.0	6.5	-2.3	-4.2	…	…	…	…	…	…	…
Competitor-weighted	1.8	0.4	0.3	-0.2	…	…	…	…	…	…	…
Customer-weighted	-0.8	3.1	2.0	-0.3	…	…	…	…	…	…	…
Memo items:											
Imputed cost of natural disasters (percent of GDP)	…	…	…	…	…	0.9	0.9	0.9	0.9	0.9	0.9

Sources: Country authorities; and Fund staff estimates and projections.

1/ Includes all eight ECCU members unless otherwise noted. ECCU price aggregates are calculated as weighted averages of individual country data. Other ECCU aggregates are calculated by adding individual country data.

2/ Debt relief has been accorded to: (i) Grenada under the ECF-supported program in 2017; and (ii) St. Vincent and the Grenadines in 2017 and Antigua and Barbuc in 2018 under the Petrocaribe arrangement.

Table 2. ECCU: Selected Economic Indicators by Country, 2014–24

	2014	2015	2016	Prel. 2017	Proj. 2018	2019	2020	2021	2022	2023	2024
				(Annual percentage change)							
Real GDP (ECCU-8)	**3.6**	**2.1**	**3.4**	**1.4**	**2.2**	**3.9**	**3.1**	**2.5**	**2.3**	**2.2**	**2.1**
Anguilla	5.1	3.1	-1.3	-7.7	4.0	6.0	3.0	2.8	2.8	2.8	2.8
Antigua and Barbuda	4.7	4.0	5.6	3.0	4.5	3.0	2.5	2.0	2.0	2.0	2.0
Dominica	4.2	-3.7	2.6	-9.5	-14.6	10.2	7.0	4.2	3.1	2.0	1.5
Grenada	7.3	6.4	3.7	5.1	4.5	4.0	2.4	2.7	2.7	2.7	2.7
Montserrat	2.2	-1.9	0.5	-2.8	2.4	2.2	2.2	2.2	2.2	2.2	2.2
St. Kitts and Nevis	6.1	2.1	2.3	1.2	2.2	3.5	3.5	3.0	2.7	2.7	2.7
St. Lucia	0.0	0.3	3.9	3.7	3.7	3.7	3.1	2.1	1.5	1.5	1.5
St. Vincent and the Grenadines	1.2	1.3	2.0	0.9	2.0	2.3	2.4	2.3	2.3	2.3	2.3
CPI (end of period)	**1.0**	**-1.0**	**-0.7**	**1.7**	**2.1**	**1.8**	**1.7**	**1.8**	**1.9**	**1.9**	**1.8**
Anguilla	-0.9	-1.7	1.7	1.3	1.6	2.0	2.3	2.3	2.3	2.3	2.3
Antigua and Barbuda	1.3	0.9	-1.1	2.4	2.2	2.0	2.0	2.0	2.0	2.0	2.5
Dominica	0.5	-0.5	-0.2	1.4	1.4	1.8	1.8	2.0	2.0	2.0	2.0
Grenada	-0.6	1.1	0.9	0.5	2.8	1.9	2.0	2.0	2.0	2.0	2.0
Montserrat	-1.0	-0.1	-1.3	1.6	0.6	1.3	1.7	2.0	2.0	2.0	2.0
St. Kitts and Nevis	-0.5	-2.4	0.0	0.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0
St. Lucia	3.7	-2.6	-3.0	2.2	2.0	1.5	0.8	1.2	1.5	1.5	2.0
St. Vincent and the Grenadines	0.1	-2.1	1.0	3.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
CPI (period average)	**1.1**	**-0.8**	**-0.8**	**1.1**	**1.8**	**1.9**	**1.7**	**1.8**	**1.9**	**1.9**	**1.8**
Anguilla	-0.3	-1.0	-0.5	1.3	1.4	2.0	2.3	2.3	2.3	2.3	2.3
Antigua and Barbuda	1.1	1.0	-0.5	2.4	1.3	2.0	2.0	2.0	2.0	2.0	2.5
Dominica	0.8	-0.8	0.0	0.6	1.4	1.6	1.8	1.9	2.0	1.6	2.0
Grenada	-1.0	-0.6	1.7	0.9	2.5	1.9	2.0	2.0	2.0	2.0	2.0
Montserrat	-0.3	-1.1	-0.2	1.2	0.6	1.2	1.7	2.0	2.0	2.0	2.0
St. Kitts and Nevis	0.2	-2.3	-1.2	0.4	1.4	2.0	2.0	2.0	2.0	2.0	2.0
St. Lucia	3.5	-1.0	-3.1	0.1	1.9	1.9	0.9	1.0	1.4	1.5	1.8
St. Vincent and the Grenadines	0.2	-1.7	-0.2	2.2	2.4	2.0	2.0	2.0	2.0	2.0	2.0
Private sector credit	**-4.6**	**-4.3**	**-6.5**	**-0.1**	**0.6**	**1.3**	**1.2**	**1.6**	**1.8**	**1.9**	**2.0**
Anguilla	-3.8	-3.5	-47.0	1.2	3.0	3.8	4.0	4.0	4.0	5.0	6.0
Antigua and Barbuda	-5.2	-11.3	1.0	-1.6	-1.8	1.3	2.3	3.0	3.0	3.0	2.7
Dominica	-2.2	0.3	2.9	-1.6	0.3	2.3	2.5	3.2	3.3	3.0	3.3
Grenada	-5.1	-3.8	-0.2	0.6	6.8	8.7	6.1	6.6	6.4	5.6	6.0
Montserrat	0.4	5.4	13.5	4.1	4.9	4.8	4.9	5.4	5.3	5.3	5.3
St. Kitts and Nevis	0.6	3.2	0.9	1.5	2.0	2.3	2.5	2.5	2.5	2.5	2.5
St. Lucia	-6.7	-6.8	-7.8	-1.9	0.0	0.0	3.9	3.2	3.0	3.0	3.3
St. Vincent and the Grenadines	-0.2	2.4	1.3	1.6	-0.2	1.9	1.9	2.0	2.1	2.2	2.3
Net credit to public sector	**-71.9**	**164.5**	**30.4**	**16.3**	**25.7**	**0.7**	**-0.6**	**-5.4**	**-7.3**	**-8.3**	**-10.5**
Anguilla	7.6	1.5	-60.0	-6.4	1.7	2.7	1.9	1.8	1.9	1.9	2.0
Antigua and Barbuda	13.5	-8.0	1.6	13.4	-7.8	-4.4	-4.6	-4.9	-5.5	-6.3	-7.2
Dominica	490.0	-334.0	384.3	0.7	17.0	-15.6	-24.5	-14.5	14.9	-2.2	-8.2
Grenada	1636.2	167.2	32.4	14.3	-5.2	21.9	15.8	8.4	5.0	3.7	4.6
Montserrat	-3.5	37.5	-6.6	-11.1	-10.8	-6.6	4.0	3.8	3.8	4.2	4.5
St. Kitts and Nevis	43.4	2.1	12.7	-1.6	18.8	-4.4	-6.1	-9.3	-12.4	-15.1	-19.8
St. Lucia	168.7	27.4	7.4	32.6	5.5	-15.6	-11.1	-11.0	-13.6	-17.0	-21.6
St. Vincent and the Grenadines	44.9	25.4	-45.6	57.5	15.0	8.1	3.1	15.3	9.7	5.6	8.4
Current account balances (percent GDP)	**-5.4**	**-4.3**	**-7.7**	**-8.0**	**-8.7**	**-8.8**	**-9.3**	**-8.6**	**-7.7**	**-7.1**	**-6.7**
Anguilla	-24.0	-26.9	-27.0	-21.1	-28.9	-26.4	-27.3	-27.5	-27.9	-28.6	-29.2
Antigua and Barbuda	0.6	3.8	-2.7	-2.3	-1.1	0.5	0.4	0.4	0.2	0.0	-0.3
Dominica	-6.9	-6.9	-8.4	-7.6	-42.7	-30.1	-29.8	-26.4	-15.6	-13.1	-8.5
Grenada	-10.9	-11.0	-10.1	-13.8	-14.9	-14.4	-13.9	-14.1	-14.9	-14.9	-15.5
Montserrat	-21.0	-9.9	-21.4	-43.9	-40.1	-31.3	-30.3	-29.0	-27.2	-25.9	-24.8
St. Kitts and Nevis	-0.7	-10.3	-12.6	-8.7	-2.9	-12.1	-12.6	-12.1	-11.8	-11.5	-9.9
St. Lucia	0.8	4.2	-3.4	-2.6	-1.0	-1.5	-0.9	-0.9	-0.2	1.0	1.0
St. Vincent and the Grenadines	-25.8	-14.5	-15.2	-17.2	-15.9	-15.0	-14.0	-13.2	-12.4	-11.5	-11.4
Trade balances (percent GDP)	**-31.1**	**-28.4**	**-29.1**	**-30.0**	**-32.5**	**-31.6**	**-31.2**	**-30.7**	**-30.1**	**-29.8**	**-29.4**
Anguilla	-46.1	-49.9	-50.4	-49.8	-57.5	-53.5	-53.8	-53.7	-53.8	-54.0	-54.2
Antigua and Barbuda	-34.0	-28.1	-24.4	-30.4	-33.1	-31.6	-31.6	-31.6	-31.7	-31.9	-32.0
Dominica	-31.1	-30.0	-28.0	-28.7	-49.4	-43.3	-40.9	-35.2	-26.8	-25.3	-21.6
Grenada	-28.5	-26.7	-25.3	-29.7	-30.1	-29.4	-29.3	-29.6	-30.6	-30.4	-30.5
Montserrat	-56.2	-50.9	-43.6	-78.2	-75.6	-64.9	-62.4	-60.0	-56.8	-54.3	-52.1
St. Kitts and Nevis	-25.5	-29.5	-32.3	-28.7	-31.1	-31.4	-31.3	-30.3	-30.2	-30.0	-29.3
St. Lucia	-27.2	-21.3	-26.7	-24.7	-25.3	-25.5	-24.9	-25.2	-24.7	-24.2	-24.3
St. Vincent and the Grenadines	-37.1	-32.9	-32.7	-32.3	-32.8	-31.9	-31.1	-30.7	-30.3	-29.8	-29.7
Foreign direct investment (percent GDP)	**9.0**	**8.6**	**8.8**	**7.1**	**7.8**	**8.0**	**7.9**	**7.8**	**7.6**	**7.5**	**7.5**
Anguilla	28.0	20.7	19.4	22.3	21.7	20.6	19.9	19.2	18.6	18.0	17.3
Antigua and Barbuda	3.3	6.9	4.6	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Dominica	3.0	4.2	6.9	0.5	6.9	6.5	6.3	5.7	4.4	4.4	4.4
Grenada	9.0	13.5	8.6	8.5	8.6	9.1	9.1	9.1	9.1	9.1	9.1
Montserrat	8.6	8.3	2.7	2.9	2.7	2.7	2.6	2.6	2.6	2.6	2.6
St. Kitts and Nevis	17.2	13.6	9.8	5.2	6.0	7.5	7.4	7.2	7.0	6.4	6.1
St. Lucia	3.5	5.2	6.9	6.5	6.7	6.9	6.6	6.4	6.4	6.4	6.4
St. Vincent and the Grenadines	15.8	6.6	21.1	13.1	12.5	12.5	12.5	12.5	12.4	12.4	12.4

Sources: Country authorities; and Fund staff estimates and projections.

Table 3. ECCU: Selected Central Government Fiscal Indicators by Country, 2014–24 1/

(In percent of GDP)

	2014	2015	2016	Prel. 2017	Proj. 2018	2019	2020	2021	2022	2023	2024
Total revenues and grants	**26.7**	**28.4**	**29.3**	**28.1**	**28.0**	**25.9**	**24.9**	**24.5**	**24.3**	**23.9**	**23.8**
Anguilla	24.1	21.8	22.3	29.1	35.7	36.8	32.0	29.8	28.7	26.5	25.3
Antigua and Barbuda	19.7	23.7	24.0	21.0	19.5	19.0	18.2	17.9	17.7	16.8	16.8
Dominica	27.1	44.3	59.0	59.1	50.1	38.5	31.0	28.7	28.1	28.0	28.0
Grenada	24.5	24.5	26.2	25.6	26.0	25.7	25.6	25.5	25.4	25.2	24.9
Montserrat	94.4	113.5	79.3	111.1	92.8	87.4	83.1	80.8	77.0	73.9	71.2
St. Kitts and Nevis	39.0	36.3	32.2	29.3	36.2	26.9	26.1	25.6	25.4	25.2	25.0
St. Lucia	22.9	23.4	23.5	22.8	23.2	23.1	23.2	23.3	23.3	23.3	23.2
St. Vincent and the Grenadines	29.3	27.9	29.8	30.3	27.8	28.2	28.4	28.4	28.4	28.4	28.4
Current expenditure	**23.0**	**23.1**	**22.6**	**23.1**	**23.0**	**23.0**	**22.7**	**22.7**	**22.7**	**22.7**	**22.6**
Anguilla	21.2	20.6	21.9	25.7	25.2	23.5	22.3	21.3	21.6	20.8	19.7
Antigua and Barbuda	20.9	24.9	20.3	20.5	22.1	20.7	20.5	20.5	20.5	20.5	20.5
Dominica	24.9	24.9	28.1	34.2	30.1	27.2	26.2	25.5	24.5	24.8	24.7
Grenada	19.9	17.3	19.7	19.9	18.6	18.5	18.4	18.2	18.1	18.1	18.1
Montserrat	74.0	75.5	67.3	73.9	72.4	69.7	67.9	66.3	64.6	62.8	61.2
St. Kitts and Nevis	24.6	24.4	24.0	24.1	22.9	25.4	25.4	26.0	26.4	26.3	26.3
St. Lucia	22.4	21.7	21.2	20.2	21.5	22.5	22.1	22.3	22.4	22.5	22.6
St. Vincent and the Grenadines	24.9	24.1	24.9	26.7	26.2	26.0	26.1	26.0	25.9	25.9	25.8
Capital expenditure and net lending	**5.0**	**4.9**	**4.9**	**4.9**	**5.2**	**5.5**	**4.4**	**4.1**	**3.9**	**4.0**	**4.0**
Anguilla	0.4	0.8	0.8	2.8	10.7	11.6	6.2	5.7	5.4	4.9	4.5
Antigua and Barbuda	1.6	1.4	3.9	1.9	3.0	3.7	2.3	1.8	1.8	1.8	1.9
Dominica	6.8	7.5	16.3	24.6	17.3	17.8	17.0	10.0	3.1	3.1	3.1
Grenada	9.2	8.3	4.2	2.6	3.1	2.9	2.9	4.7	6.7	7.0	7.6
Montserrat	26.5	18.5	12.4	4.8	26.0	20.8	13.8	13.2	11.2	9.7	8.6
St. Kitts and Nevis	5.6	6.6	4.2	4.7	4.4	4.2	4.1	4.0	4.0	4.0	4.0
St. Lucia	3.9	4.2	3.8	4.4	4.7	5.2	3.7	3.7	3.7	3.7	3.7
St. Vincent and the Grenadines	6.4	4.9	3.8	4.1	3.6	3.9	3.9	3.9	3.9	3.9	3.9
Saving (current revenue less current expenditure)	**0.8**	**2.0**	**3.3**	**2.0**	**1.5**	**-1.1**	**-1.0**	**-1.1**	**-1.2**	**-1.2**	**-1.2**
Anguilla	1.2	0.8	0.1	-0.6	-3.1	1.2	2.6	3.5	3.1	3.8	3.7
Antigua and Barbuda	-3.4	-7.0	-3.0	-2.3	-5.5	-4.1	-3.9	-3.9	-3.9	-3.8	-3.8
Dominica	0.2	17.3	29.9	20.0	11.4	4.7	3.8	2.3	2.6	2.3	2.3
Grenada	0.5	3.9	3.0	3.1	4.5	4.5	4.6	4.7	4.8	4.7	4.8
Montserrat	-45.6	-47.0	-39.6	-44.8	-44.2	-40.1	-37.8	-35.7	-33.5	-31.1	-28.9
St. Kitts and Nevis	11.6	10.7	5.6	3.9	11.3	-0.2	-0.9	-2.0	-2.5	-2.6	-2.6
St. Lucia	-0.8	0.3	1.1	1.2	0.5	-0.5	0.0	-0.1	-0.3	-0.4	-0.5
St. Vincent and the Grenadines	2.3	1.3	3.6	1.3	0.1	0.7	0.8	0.9	1.0	1.0	1.1
Primary balance 2/	**1.4**	**3.1**	**4.3**	**2.5**	**2.4**	**-1.3**	**-0.9**	**-0.8**	**-0.8**	**-1.0**	**-1.1**
Anguilla	3.6	1.4	1.0	2.7	2.1	3.7	5.3	4.1	2.9	1.8	1.9
Antigua and Barbuda	-0.2	-0.1	2.3	0.9	-2.4	-2.3	-1.4	-1.0	-1.0	-1.7	-1.6
Dominica	-3.0	13.8	16.2	2.5	4.6	-6.1	-11.9	-6.3	0.9	0.6	0.6
Grenada	-1.1	2.1	5.2	5.7	6.3	6.3	6.1	4.2	2.0	1.6	0.8
Montserrat	-6.1	19.5	-0.4	32.4	-5.6	-4.4	0.0	-0.1	-0.1	0.1	0.2
St. Kitts and Nevis	11.4	7.3	5.6	2.0	10.4	-2.6	-3.1	-3.5	-3.7	-3.4	-3.1
St. Lucia	0.1	0.9	1.9	1.3	0.2	-1.3	0.8	1.0	1.0	0.9	0.9
St. Vincent and the Grenadines	0.3	1.1	3.2	1.9	0.6	0.7	1.0	1.0	1.1	1.2	1.2
Overall balance 2/	**-1.4**	**0.5**	**1.8**	**0.1**	**-0.2**	**-3.5**	**-3.2**	**-3.2**	**-3.3**	**-3.6**	**-3.8**
Anguilla	2.5	0.4	-0.4	0.6	-0.2	1.6	3.3	2.6	1.6	0.6	0.9
Antigua and Barbuda	-2.8	-2.6	-0.1	-1.3	-5.6	-5.4	-4.6	-4.4	-4.6	-5.5	-5.6
Dominica	-4.6	11.9	14.6	0.3	2.7	-8.0	-13.7	-8.2	-1.0	-1.3	-1.3
Grenada	-4.7	-1.2	2.3	3.0	4.3	4.3	4.3	2.6	0.6	0.1	-0.7
Montserrat	-6.2	19.5	-0.4	32.4	-5.6	-4.4	0.0	-0.1	-0.1	0.0	0.2
St. Kitts and Nevis	8.8	5.3	4.0	0.5	8.9	-4.1	-4.8	-5.8	-6.5	-6.6	-6.7
St. Lucia	-3.4	-2.6	-1.5	-1.8	-3.1	-5.3	-3.2	-3.3	-3.5	-3.6	-3.7
St. Vincent and the Grenadines	-2.0	-1.1	1.1	-0.5	-2.0	-1.7	-1.6	-1.5	-1.4	-1.4	-1.3

Sources: Country authorities; and Fund staff estimates and projections.

1/ Fiscal years for Dominica, Montserrat (since 2010) and St. Lucia.

2/ Includes imputed natural disaster costs.

Table 4. ECCU: Selected Public Sector Debt Indicators by Country, 2014–24 1/

	2014	2015	2016	Prel. 2017	Proj. 2018	2019	2020	2021	2022	2023	2024
					(In percent of GDP)						
Total public sector debt 2/	**80.9**	**76.2**	**73.8**	**72.1**	**71.1**	**70.3**	**69.5**	**69.7**	**70.3**	**70.8**	**71.1**
Anguilla	26.4	24.2	59.1	65.8	62.4	55.8	49.2	43.8	39.8	36.9	34.0
Antigua and Barbuda	102.5	98.6	86.0	87.6	88.2	89.5	90.3	90.9	91.6	92.8	93.8
Dominica	78.7	75.3	73.6	83.2	87.6	83.1	86.0	87.4	86.5	84.5	81.9
Grenada	101.8	90.1	81.6	69.9	62.8	56.2	49.2	47.0	46.5	46.1	44.5
Montserrat	4.3	6.0	5.3	6.6	6.1	9.9	4.9	4.5	4.0	3.4	3.7
St. Kitts and Nevis	75.2	66.1	61.5	61.1	61.4	62.5	63.7	66.9	71.0	73.6	76.3
St. Lucia	69.6	66.8	66.6	65.8	65.7	68.0	68.9	70.3	71.8	73.3	74.8
St. Vincent and the Grenadines	79.4	79.4	82.8	74.2	73.0	71.3	69.7	68.2	67.0	66.0	65.1
External debt	**44.0**	**41.0**	**40.0**	**38.5**	**38.0**	**37.1**	**36.3**	**35.9**	**35.2**	**34.6**	**33.7**
Anguilla	20.0	19.1	24.2	26.1	23.2	19.8	16.9	14.3	11.9	9.7	7.8
Antigua and Barbuda	46.1	44.9	40.8	42.0	41.6	42.7	42.9	42.7	41.7	40.6	39.5
Dominica	61.0	58.1	56.1	68.6	73.0	69.7	74.5	77.2	76.9	75.8	73.9
Grenada	67.7	61.4	56.6	47.4	46.1	42.0	37.2	36.5	36.6	36.8	35.3
Montserrat	3.6	5.3	4.6	5.9	5.4	9.2	4.3	3.9	3.4	2.8	2.3
St. Kitts and Nevis	33.7	25.2	20.2	15.7	13.8	11.9	10.2	8.7	7.3	6.2	5.1
St. Lucia	34.5	31.7	31.8	33.7	34.5	35.5	35.8	36.4	37.1	37.8	38.5
St. Vincent and the Grenadines	45.5	46.4	56.7	47.4	44.5	42.8	41.6	39.1	36.7	34.5	33.0
Domestic debt	**36.9**	**35.2**	**33.7**	**33.6**	**33.1**	**33.2**	**33.2**	**33.9**	**35.1**	**36.3**	**37.4**
Anguilla	6.4	5.1	34.8	39.7	39.2	35.9	32.3	29.5	27.9	27.3	26.3
Antigua and Barbuda	56.4	53.7	45.2	45.6	46.6	46.7	47.4	48.3	49.9	52.2	54.3
Dominica	17.7	17.1	17.5	14.6	14.7	13.4	11.5	10.3	9.6	8.6	8.0
Grenada	34.1	28.7	25.0	22.5	16.7	14.2	12.0	10.5	9.8	9.3	9.2
Montserrat	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6	1.5
St. Kitts and Nevis	41.6	40.9	41.3	45.4	47.6	50.6	53.5	58.3	63.7	67.4	71.1
St. Lucia	35.1	35.1	34.8	32.2	31.3	32.5	33.1	33.8	34.7	35.5	36.3
St. Vincent and the Grenadines	34.0	32.9	26.2	26.8	28.4	28.5	28.1	29.1	30.3	31.5	32.1
					(In percent)						
Implied interest rate on central government debt											
Anguilla	5.0	4.1	2.4	3.4	3.8	3.9	4.0	3.3	3.2	2.9	2.4
Antigua and Barbuda	3.3	3.2	3.8	3.3	4.7	4.5	4.5	4.8	4.9	5.0	5.2
Dominica	2.7	3.4	3.0	3.5	3.0	3.0	2.7	2.8	2.8	2.9	3.0
Grenada	3.7	3.9	3.6	3.9	3.3	3.6	3.7	3.4	3.3	3.3	3.4
Montserrat	1.6	0.7	0.6	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.4
St. Kitts and Nevis	4.0	3.7	3.2	3.0	3.3	2.9	3.2	4.1	4.4	4.8	5.2
St. Lucia	5.3	5.4	5.4	5.0	5.3	5.1	5.3	5.5	5.6	5.6	5.6
St. Vincent and the Grenadines	3.4	3.3	3.3	3.7	4.2	3.9	4.2	4.1	4.2	4.3	4.2
Implied interest rates on central government external debt											
Anguilla	4.0	3.7	2.3	3.3	4.2	5.2	5.5	4.6	4.7	4.4	3.5
Antigua and Barbuda	2.5	1.5	2.3	1.6	3.8	3.4	3.4	3.5	3.5	3.4	3.3
Dominica	2.2	3.4	2.6	3.1	2.1	1.9	1.6	1.9	2.0	2.1	2.2
Grenada	3.0	3.8	3.7	4.2	3.0	3.6	3.7	3.3	3.3	3.3	3.4
Montserrat	2.1	0.6	0.6	0.3	0.4	0.3	0.3	0.4	0.4	0.4	0.4
St. Kitts and Nevis	2.1	2.5	2.0	2.2	2.7	4.1	4.3	4.5	4.8	5.2	5.7
St. Lucia	3.9	3.8	4.0	3.6	3.7	4.0	4.7	5.0	5.1	5.2	5.3
St. Vincent and the Grenadines	2.3	2.2	1.8	2.4	3.2	2.9	3.1	3.0	3.0	3.0	2.8
Implied interest rates on central government domestic debt											
Anguilla	9.3	5.4	2.5	3.4	3.7	3.2	3.2	2.7	2.6	2.4	2.1
Antigua and Barbuda	3.9	4.5	4.9	4.5	5.3	5.2	5.3	5.6	5.7	5.9	6.1
Dominica	4.2	3.3	4.2	4.3	6.4	7.4	7.8	7.4	7.1	7.1	7.1
Grenada	5.1	4.0	3.4	3.3	4.1	3.8	3.9	3.7	3.5	3.4	3.3
Montserrat	0.9	0.9	0.9	0.0	0.0	0.7	0.7	0.7	0.7	0.7	0.5
St. Kitts and Nevis	5.9	4.7	4.0	3.4	3.5	2.6	3.0	4.0	4.4	4.8	5.1
St. Lucia	6.6	6.9	6.6	6.6	7.2	6.4	5.9	6.0	6.0	6.0	6.0
St. Vincent and the Grenadines	5.1	5.1	5.9	5.6	5.4	5.1	5.6	5.4	5.5	5.6	5.7

Sources: Country authorities; and Fund staff estimates and projections.

1/ Fiscal years for Dominica, Montserrat (since 2010) and St. Lucia.

2/ Debt relief has been accorded to: (i) Grenada under the ECF-supported program in 2017; (ii) St. Vincent and the Grenadines in 2017 and and Antigua and Barbuda in 2018 under the Petrocaribe arrangement.

Table 5. ECCU: Monetary Survey, 2014–24

				Prel.	Proj.						
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				(In millions of EC dollars, end of period)							
Net foreign assets	4,960	6,533	7,400	8,551	9,048	9,411	9,582	10,003	10,682	11,431	12,294
Central bank	3,804	4,206	4,557	4,707	4,995	5,269	5,314	5,383	5,602	5,945	6,267
Commercial banks (net)	1,156	2,327	2,842	3,844	4,053	4,142	4,268	4,620	5,080	5,486	6,026
Assets	4,940	5,905	6,159	7,228	...	...	...	...	...	...	...
Liabilities	-3,784	-3,578	-3,317	-3,384	...	...	...	...	...	...	...
Net domestic assets	10,085	9,125	8,382	7,963	8,121	8,624	9,267	9,668	9,818	9,910	9,938
Public sector credit, net	-286	-755	-985	-1,145	-1,439	-1,449	-1,441	-1,363	-1,263	-1,158	-1,037
Central government	1,608	1,247	984	867	655	769	886	1,065	1,268	1,476	1,708
Other public sector	-1,894	-2,003	-1,968	-2,011	-2,094	-2,219	-2,327	-2,428	-2,531	-2,634	-2,744
Private sector credit, net	12,377	11,841	11,066	11,049	11,120	11,267	11,402	11,590	11,801	12,027	12,266
(real terms)	8,223	7,867	7,410	7,459	7,426	7,391	7,339	7,335	7,340	7,343	7,351
Other items (net)	-2,006	-1,960	-1,699	-1,941	-1,561	-1,194	-694	-559	-720	-958	-1,291
Broad money (M2)	15,045	15,658	15,782	16,514	17,169	18,035	18,849	19,672	20,500	21,341	22,232
Money	3,173	3,461	3,711	4,303	4,471	4,728	4,954	5,170	5,388	5,609	5,843
Currency in circulation	991	1,024	1,120	1,196	...	...	...	...	...	...	...
Demand deposits	2,457	2,697	2,877	3,211	...	...	...	...	...	...	...
Quasi-money	11,872	12,197	12,070	12,211	12,697	13,306	13,895	14,501	15,112	15,732	16,388
Time deposits	2,732	2,573	2,350	2,036	...	...	...	...	...	...	...
Savings deposits	6,787	7,002	7,201	7,629	...	...	...	...	...	...	...
Foreign currency deposits	2,354	2,622	2,519	2,547	...	...	...	...	...	...	...
				(Annual percentage change)							
Net foreign assets	42.5	31.7	13.3	15.6	5.8	4.0	1.8	4.4	6.8	7.0	7.5
Net domestic assets, o.w.	-3.3	-9.5	-8.1	-5.0	2.0	6.2	7.5	4.3	1.5	0.9	0.3
Public sector credit, net	-71.9	164.5	30.4	16.3	25.7	0.7	-0.6	-5.4	-7.3	-8.3	-10.5
Private sector credit, net	-4.6	-4.3	-6.5	-0.1	0.6	1.3	1.2	1.6	1.8	1.9	2.0
Broad money (M2)	8.2	4.1	0.8	4.6	4.0	5.0	4.5	4.4	4.2	4.1	4.2
NFA contribution	10.6	10.5	5.5	7.3	3.0	2.1	1.0	2.2	3.5	3.7	4.0
NDA contribution	-2.5	-6.4	-4.7	-2.7	1.0	2.9	3.6	2.1	0.8	0.4	0.1
Money	12.9	9.1	7.2	15.9	3.9	5.7	4.8	4.4	4.2	4.1	4.2
NFA contribution	23.3	12.7	10.1	4.0	6.7	6.1	1.0	1.4	4.2	6.4	5.7
NDA contribution	-10.4	-3.6	-2.9	11.9	-2.8	-0.4	3.8	3.0	0.0	-2.3	-1.6
Quasi-money	5.0	2.7	-1.0	1.2	4.0	4.8	4.4	4.4	4.2	4.1	4.2
				(In percent of GDP)							
Net foreign assets	29.3	38.6	41.4	45.9	47.2	47.2	45.3	45.1	46.2	47.4	49.0
Net domestic assets, o.w.	59.5	53.9	46.9	42.7	42.4	43.3	43.9	43.6	42.5	41.1	39.6
Public sector credit, net	-1.7	-4.5	-5.5	-6.1	-7.5	-7.3	-6.8	-6.2	-5.5	-4.8	-4.1
Private sector credit, net	73.1	69.9	61.9	59.3	58.1	56.5	54.0	52.3	51.0	49.9	48.9
Broad money (M2)	88.8	92.5	88.3	88.6	89.6	90.5	89.2	88.8	88.6	88.6	88.6
Money	18.7	20.4	20.8	23.1	23.3	23.7	23.4	23.3	23.3	23.3	23.3
Quasi-money	70.1	72.0	67.6	65.5	66.3	66.7	65.8	65.4	65.3	65.3	65.3
Interest rates (percent per year)											
ECCB policy rate	6.50	6.50	6.50	6.50	...	...	...	...	...	...	...
US policy rate	0.125	0.135	0.386	0.972	...	...	...	...	...	...	...
Time deposit rate	3.60	2.77	2.48	2.21	...	...	...	...	...	...	...
Demand deposit rate	0.48	0.35	0.24	0.25	...	...	...	...	...	...	...
Weighted average lending rat	8.92	8.67	8.53	8.41	...	...	...	...	...	...	...

Sources: ECCB; and Fund staff estimates and projections.

Table 6. ECCU: Summary Balance of Payments, 2014–24 1/

				Est.			Proj.				
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	(In millions of U.S. dollars)										
Current account	**-336**	**-282**	**-532**	**-567**	**-645**	**-692**	**-765**	**-741**	**-688**	**-663**	**-651**
Trade balance	-1,949	-1,877	-2,010	-2,131	-2,397	-2,475	-2,558	-2,631	-2,687	-2,768	-2,850
Exports	380	334	286	263	274	289	305	319	337	354	372
Imports	2,329	2,211	2,296	2,394	2,671	2,764	2,863	2,949	3,024	3,121	3,223
Services and income	1,544	1,532	1,446	1,525	1,711	1,740	1,848	1,947	2,058	2,166	2,263
Services	1,916	1,958	1,829	1,932	2,151	2,210	2,342	2,462	2,592	2,720	2,837
Transportation	-184	-180	-176	-205	-241	-255	-268	-279	-291	-303	-316
Travel	2,525	2,573	2,572	2,649	2,800	2,996	3,159	3,300	3,443	3,598	3,750
Other services	-424	-435	-567	-512	-408	-531	-550	-559	-560	-575	-597
Income	-372	-425	-384	-407	-441	-470	-493	-514	-534	-554	-574
Current transfers	69	62	33	39	40	42	-55	-57	-59	-61	-63
Capital and financial account	**336**	**282**	**532**	**567**	**645**	**692**	**765**	**741**	**688**	**663**	**651**
Capital transfers (net)	275	282	277	433	295	253	201	187	180	173	173
Financial account	-115	96	-390	-135	-350	-439	-564	-553	-509	-490	-478
Direct investment	-566	-571	-610	-507	-574	-627	-649	-664	-681	-700	-724
Portfolio investment	155	82	-469	79	65	52	49	44	41	40	37
Public sector long term loan	-36	2	66	55	70	92	86	28	-3	-8	-11
Change in NFA of commercial banks	196	362	671	371	77	33	47	130	170	150	200
Other investment	-17	-36	-44	-12	-120	-100	-120	-120	-120	-100	-100
Errors and Omissions	-53	96	-135								
Overall balance	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Financing	**-154**	**-257**	**3**	**81**	**-130**	**-111**	**-22**	**-29**	**-83**	**-129**	**-121**
Of which: Change in imputed reserves (increase -)	-117	-226	58	126	-107	-101	-17	-26	-81	-127	-119
Net use of Fund resources	-33	-31	-55	-45	-24	-10	-5	-4	-2	-2	-1
Financing gap	0	0	0	0	0	0	0	0	0	0	0
	(In percent of GDP)										
Current account	**-5.4**	**-4.3**	**-7.7**	**-8.0**	**-8.7**	**-8.8**	**-9.3**	**-8.6**	**-7.7**	**-7.1**	**-6.7**
Exports	6.1	5.1	4.1	3.7	3.7	3.7	3.7	3.7	3.8	3.8	3.8
Imports	37.1	33.4	33.3	33.7	36.2	35.3	34.9	34.4	33.9	33.6	33.3
Services, incomes and transfers	25.7	24.1	21.4	22.0	23.7	22.8	21.9	22.1	22.4	22.7	22.7
Of which											
Travel	40.2	38.9	37.3	37.3	37.9	38.3	38.5	38.5	38.6	38.7	38.7
Current transfers	1.1	0.9	0.5	0.5	0.5	0.5	-0.7	-0.7	-0.7	-0.7	-0.7
Capital and financial account	**5.4**	**4.3**	**7.7**	**8.0**	**8.7**	**8.8**	**9.3**	**8.6**	**7.7**	**7.1**	**6.7**
Of which											
Direct investment	-9.0	-8.6	-8.8	-7.1	-7.8	-8.0	-7.9	-7.8	-7.6	-7.5	-7.5
Overall balance	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
	(Annual percentage change)										
Exports	...	-12.1	-14.4	-8.1	4.3	5.6	5.3	4.5	5.7	5.0	5.3
Imports	...	-5.1	3.9	4.2	11.6	3.5	3.6	3.0	2.5	3.2	3.2
Travel (net)	...	1.9	0.0	3.0	5.7	7.0	5.4	4.5	4.3	4.5	4.2
Foreign direct investment	...	0.8	6.8	-16.9	13.2	9.3	3.4	2.5	2.4	2.9	3.4
Memorandum items:											
End-year gross reserves of the ECCB, US$ millions	1,411	1,560	1,690	1,745	1,852	1,953	1,970	1,996	2,077	2,204	2,323
In months of current year imports of goods and services	4.7	5.3	5.4	5.4	5.4	5.3	5.2	5.1	5.1	5.3	5.4
ECCU GDP at market prices, US$ millions	6,272	6,616	6,906	7,095	7,384	7,826	8,207	8,565	8,926	9,292	9,680

Sources: Country authorities; and Fund staff estimates and projections.

Table 7. ECCU: Selected Labor Force Indicators

	2001	2008	2017
Total Population (y-o-y % change)			
Antigua and Barbuda	1.7	1.1	1.1
Dominica	0.0	-0.1	0.0
Grenada	0.2	0.3	0.4
St. Kitts and Nevis	1.4	1.1	1.0
St. Lucia	1.2	1.2	0.6
St. Vincent and the Grenadines	0.0	0.1	0.1
Population 15 to 64 years (y-o-y % change)			
Antigua and Barbuda	2.1	1.8	1.2
Dominica	...	...	...
Grenada	1.7	1.1	0.4
St. Kitts and Nevis	...	...	...
St. Lucia	2.3	2.1	0.8
St. Vincent and the Grenadines	1.0	0.9	0.4
Unemployment rate (%)			
Antigua and Barbuda	8.4	4.1	14.1 [1/]
Dominica	11.0	13.9	23.0 [3/]
Grenada	9.9	24.9	23.6 [1/]
St. Kitts and Nevis	5.1	5.1	3.9 [1/]
St. Lucia	16.5	15.8	20.2 [3/]
St. Vincent and the Grenadines	21.1	18.8	25.8 [4/]
Wages (EC$, annual average) 4/			
Antigua and Barbuda	24,734	29,351	29,980 [2/]
Dominica	...	13,807	16,188 [4/]
Grenada	16,473	20,019	22,756 [4/]
St. Kitts and Nevis	...	23,089	37086 [3/]
St. Lucia	12,779	18,491	21,281 [4/]
St. Vincent and the Grenadines	10,868	16,124	18904 [3/]
Public Sector Wages (EC$, annual average) 4/			
Antigua and Barbuda	22,358	34,897	23,046 [2/]
Dominica	...	20,563	23,325 [4/]
Grenada	17,929	22,262	25,685 [2/]
St. Kitts and Nevis	...	27,168	34323 [3/]
St. Lucia	12,634	18,491	24,949 [4/]
St. Vincent and the Grenadines	13,129	18,265	26,784 [2/]

Sources: WEO, World Bank, WDI, National Authorities (censuses and poverty assessments); and IMF staff calculations.

1/2013
2/2014
3/2016
4/2017

Table 8. ECCU: Financial Structure, end-2017

(In millions of EC dollars; unless noted otherwise)

	ECCU	Anguilla	Antigua and Barbuda	Dominica	Grenada	Montserrat	St Kitts and Nevis	St Lucia	St Vincent and the Grenadines
Total assets of:									
Commercial banks	**29,627**	1,410	6,348	2,535	3,339	451	7,427	5,947	2,171
(in percent of GDP)	**154.7**	185.7	155.7	177.3	109.7	278.5	277.3	121.7	102.4
of which: locally incorporated	**15,526**	1,263	2,026	1,614	2,276	273	3,999	2,820	1,256
(in percent of GDP)	**81.0**	166.3	49.7	112.9	74.8	168.6	149.3	57.7	59.2
Total assets of the non-bank financial sector									
Credit unions	**3,620**	—	289	830	767	58	341	877	458
(in percent of GDP)	**18.9**	—	7.1	58.1	25.2	35.7	12.7	17.9	21.6
Development banks	**724**	—	26	243	63	—	298	94	—
National Development Foundations	**4**	—	4	—	—	—	—	—	—
Finance and mortgage companies	**2**	—	2	—	—	—	—	—	—
Building and loans societies	**114**	—	—	4	19	31	—	—	60
Insurance companies[1]	**2,758**	237	661	206	351	20	435	616	232
Money service companies	**184**	1	—	24	5	86	61	6	1
Private sector pension funds	**896**	—	—	42	—	—	—	810	44
Micro-lenders	**75**	—	27	6	—	—	—	42	—
Securities brokers/dealers	**38**	—	—	—	—	—	—	38	—
Total assets of the financial sector (bank and non-bank)	**38,042**	1,648	7,357	3,890	4,544	646	8,562	8,429	2,967
(in percent of GDP)	**198.6**	217.0	180.4	272.1	149.4	398.8	319.7	172.5	139.9
Offshore companies assets									
Offshore/International banks	**11,718**	3,456	5,816	76	—	260	176	1,388	546
Offshore non-bank financial companies (e.g. trusts, insurance, mutual funds)	**4,330**	2,443	—	—	—	—	—	1,864	23
Other offshore (e.g. registries, agents, corporate services providers, IBCs, LLCs)	**46**	2	4	—	—	—	—	41	—
Total assets offshore companies	**16,095**	5,901	5,820	76	—	260	176	3,293	569
(in percent of GDP)	**84.0**	777.2	142.7	5.3	—	160.6	6.6	67.4	26.8
Number of:									
Commercial banks	**35**	3	6	4	5	2	6	5	4
Locally incorporated	**17**	2	3	1	3	1	3	2	2
Foreign incorporated	**18**	1	3	3	2	1	3	3	2
Credit unions	**47**	—	6	6	10	1	4	16	4
Development banks	**6**	1	1	1	1	—	1	1	—
National Development Foundations	**3**	—	1	1	—	1	—	—	—
Finance and mortgage companies	**7**	1	1	—	—	—	1	4	—
Building and loans societies	**4**	—	—	1	1	1	—	—	1
Insurance companies	**159**	26	20	16	25	7	15	26	24
Money service companies	**45**	2	11	7	6	2	11	4	2
Private sector pension funds	**76**	—	—	6	—	—	14	31	25
Offshore/International banks	**49**	1	9	15	—	4	1	14	5
Offshore non-bank financial companies (e.g. trusts, insurance, mutual funds)	**508**	235	22	—	—	1	—	68	182
Other Offshore (e.g. registries, agents, corporate services providers, IBCs, LLCs)	**7,325**	61	1226	—	—	—	—	21	6017
Micro-lenders	**21**	3	5	6	—	1	—	6	—
Securities brokers/dealers	**2**	—	—	—	—	—	—	2	—
Total	**8,287**	333	1308	63	48	20	53	198	6264
Memorandum item:									
Nominal GDP (in EC$ million)	**19,156**	759	4,077	1,429	3,043	162	2,678	4,887	2,120

Sources: National Authorities, Eastern Caribbean Central Bank, Caribbean Confederation of Credit Unions, and IMF staff calculations.

[1]Insurance data for Anguilla, Dominica, and St Lucia as at end of period 2016.

Table 9. ECCU: Financial Soundness Indicators of the Banking Sector 2010-2018

	2010	2011	2012	2013	2014	2015	2016	2017	2018Q3
					(Percent)				
Capital adequacy									
Regulatory capital to risk-weighted assets (CAR)[1]	21.6	17.9	18.2	14.0	11.1	14.8	18.3	20.6	20.2
Regulatory Tier 1 capital to risk-weighted assets[1]	20.0	17.3	17.0	13.0	10.8	14.7	17.0	17.9	16.7
Total capital to total assets[1]	9.3	7.1	6.9	5.1	4.0	5.1	5.7	6.4	6.8
Asset composition and quality									
Total loans to total assets	59.9	57.2	58.2	55.2	50.8	46.5	43.3	41.3	40.0
Sectoral distribution of bank credit (as percent of total loans)									
Agriculture sector	2.8	0.4	0.5	0.4	0.4	0.4	0.3	0.3	0.3
Tourism sector	6.8	6.5	6.1	5.8	5.0	3.9	3.3	3.0	2.9
Household (Resident Loans)	41.9	42.0	43.2	46.4	49.8	51.0	52.7	54.9	53.8
Real estate	23.3	23.6	25.1	27.2	28.8	29.4	30.1	30.9	30.4
Other sectors	25.2	27.4	25.2	20.2	16.0	15.3	13.6	11.0	12.6
Nonperforming loans to total gross loans	10.5	12.5	15.0	18.1	17.6	16.7	10.9	12.0	11.4
Provisions to nonperforming loans	23.8	29.0	31.6	38.5	46.8	44.2	45.6	45.3	44.4
Nonperforming loans net of provisions to capital	53.5	76.9	91.6	130.0	128.7	92.8	51.7	51.7	47.2
Earnings and profitability									
Return on average assets (ROA)	1.2	0.7	0.7	-0.1	0.2	0.8	0.8	0.7	1.0
Return on average equity (ROE)	12.9	7.9	10.2	-1.9	4.0	20.3	14.6	11.9	14.9
Personnel expenses to non-interest expenses	35.5	35.5	35.6	34.5	35.1	32.8	32.0	31.2	32.1
Interest spread[2]	6.3	6.5	5.9	6.1	6.3	6.8	6.8	6.8	6.6
Liquidity									
Liquid assets to total assets	20.0	22.9	24.5	26.5	30.2	33.1	34.5	36.3	36.6
Liquid assets to short-term liabilities	23.5	26.5	28.2	29.5	33.1	36.5	37.5	39.7	40.0
Liquid assets to total deposits and liquid liabilities	36.5	39.9	40.0	41.7	45.3	50.0	51.4	54.2	57.4
Gross loans to deposits	88.6	86.4	84.5	76.7	69.1	64.8	60.4	58.7	57.9
Gross loans to deposits (EC Dollars)	86.8	83.7	83.0	75.4	69.0	65.4	62.5	60.8	59.7
Gross loans to deposits (Foreign currency)	97.4	99.9	91.7	83.0	69.4	61.9	49.4	47.4	48.0
Sensitivity to market risk									
Net open position in foreign exchange to capital	39.6	41.8	50.0	99.7	148.8	151.5	144.0	167.1	166.6
Foreign-currency-denominated liabilities to total liabilities	21.0	23.0	22.7	20.7	20.8	20.7	18.9	18.8	18.0
Foreign-currency-denominated loans to total loans	18.6	18.7	17.8	17.8	17.4	16.4	12.8	12.7	12.8
Foreign-currency-denominated assets to total assets	18.4	20.5	20.2	20.5	21.0	21.2	19.1	20.6	18.9
Funding risk									
Core to non-core liabilities	246.1	222.3	252.7	297.8	322.4	291.2	288.1	274.4	259.7
Core to non-core liabilities (EC Dollars)	273.8	280.6	320.3	358.8	380.9	334.9	323.5	305.6	280.6
Core to non-core liabilities (Foreign currency)	165.7	109.1	123.4	161.2	187.4	180.1	183.6	178.7	186.1

[1]Correspond to locally incorporated banks only.

[2] Weighted average lending rates less weighted average deposit rates.

Sources: Eastern Caribbean Central Bank (ECCB); and IMF staff

Table 10. ECCU: Selected Financial Soundness Indicators by Country, 2010-2018

	(Percent)								
	2010	2011	2012	2013	2014	2015	2016	2017	2018Q3
Regulatory capital to risk-weighted assets (CAR)[1]	**21.6**	**17.9**	**18.2**	**14.0**	**11.1**	**14.8**	**18.3**	**20.6**	**20.2**
Anguilla	17.1	13.7	13.2	5.9	-4.8	-5.8	11.8	10.4	19.0
Antigua and Barbuda	16.3	4.4	4.1	-14.1	-17.0	31.2	36.4	38.0	37.1
Dominica	17.5	11.5	15.5	13.1	11.9	12.9	15.0	13.3	12.8
Grenada	16.9	15.4	14.5	14.1	13.6	12.6	14.2	13.8	13.1
Montserrat	29.1	16.3	24.5	28.2	26.9	27.6	28.3	29.1	33.0
St. Kitts and Nevis	41.9	40.8	38.9	34.5	26.5	22.5	22.8	27.4	19.8
St. Lucia	20.3	19.0	19.2	14.3	13.3	12.9	11.8	18.2	19.2
St. Vincent and the Grenadines	19.0	17.4	17.1	16.3	16.5	21.0	20.9	19.9	26.9
Regulatory Tier 1 capital to risk-weighted assets[1]	**20.0**	**17.3**	**17.0**	**13.0**	**10.8**	**14.7**	**17.0**	**17.9**	**16.7**
Anguilla	17.0	14.7	12.2	5.5	-4.3	-5.0	11.6	10.3	16.7
Antigua and Barbuda	13.4	0.9	-1.3	-18.4	-21.3	26.4	32.8	30.2	27.5
Dominica	16.7	12.5	14.2	12.0	12.4	12.3	12.5	11.4	10.6
Grenada	15.4	13.9	13.7	12.7	12.3	10.4	11.6	12.2	11.3
Montserrat	26.8	14.8	22.6	27.8	26.0	26.6	27.3	27.1	28.5
St. Kitts and Nevis	36.6	40.2	39.1	33.8	27.3	24.6	23.9	26.3	18.6
St. Lucia	18.5	17.2	17.1	12.8	11.9	12.0	7.8	11.4	12.6
St. Vincent and the Grenadines	21.9	20.7	19.3	18.6	20.1	25.2	25.4	24.1	25.0
Nonperforming loans to total gross loans	**10.5**	**12.5**	**15.0**	**18.1**	**17.6**	**16.7**	**10.9**	**12.0**	**11.4**
Anguilla	22.1	34.3	36.4	49.0	48.9	49.3	6.5	23.5	21.0
Antigua and Barbuda	10.6	12.4	14.9	13.7	13.8	9.5	8.7	7.9	7.0
Dominica	8.1	8.7	12.3	13.9	14.2	15.1	14.5	17.4	16.5
Grenada	7.5	9.4	11.8	13.8	14.6	10.0	6.7	3.9	2.6
Montserrat	2.6	2.7	5.0	5.9	5.2	7.1	4.9	5.7	5.2
St. Kitts and Nevis	5.5	6.7	10.4	10.6	12.7	15.5	14.7	20.5	24.9
St. Lucia	12.4	13.2	15.3	20.6	17.6	18.2	13.1	12.5	10.3
St. Vincent and the Grenadines	8.6	7.7	7.4	8.3	10.0	8.7	9.5	8.2	7.0
Return on average assets (ROA)	**1.2**	**0.7**	**0.7**	**-0.1**	**0.2**	**0.8**	**0.8**	**0.7**	**1.0**
Anguilla	1.7	-0.9	-1.6	-2.8	-0.4	0.6	1.1	0.1	-0.2
Antigua and Barbuda	1.0	1.4	1.3	0.6	0.4	1.3	1.5	1.4	1.4
Dominica	1.2	0.0	1.1	-0.1	-0.1	0.1	0.8	-1.6	-2.8
Grenada	1.2	0.2	0.5	-1.9	-0.1	1.5	1.5	1.1	1.2
Montserrat	-0.7	-2.1	1.7	0.1	0.0	0.2	0.4	0.3	0.7
St. Kitts and Nevis	1.1	1.5	0.6	0.7	0.6	0.8	0.9	0.8	1.2
St. Lucia	1.5	0.5	0.9	-0.1	-0.1	0.3	-0.3	1.3	2.0
St. Vincent and the Grenadines	1.0	0.5	1.0	0.5	-0.2	0.8	0.3	-0.1	1.0
Liquid assets to total assets	**20.0**	**22.9**	**24.5**	**26.5**	**30.2**	**33.1**	**34.5**	**36.3**	**36.6**
Anguilla	23.9	22.6	21.9	21.0	23.9	27.5	40.0	44.5	48.7
Antigua and Barbuda	32.4	45.7	45.2	45.1	47.6	55.1	54.7	57.0	57.9
Dominica	34.4	33.7	35.3	36.6	39.7	45.7	53.0	59.7	56.3
Grenada	20.6	22.9	22.8	27.6	32.7	37.4	40.6	41.0	45.0
Montserrat	76.6	77.9	74.4	75.4	75.8	74.3	75.1	74.1	73.6
St. Kitts and Nevis	41.8	44.2	47.7	52.0	53.8	50.7	48.4	47.9	58.6
St. Lucia	19.2	19.5	19.9	20.7	26.2	32.0	33.3	36.4	38.6
St. Vincent and the Grenadines	35.9	33.3	32.8	36.1	37.6	38.2	39.9	37.5	36.5
Average equity to total assets	**9.2**	**7.9**	**7.0**	**6.1**	**4.4**	**5.0**	**5.6**	**6.1**	**6.6**
Anguilla	12.1	10.1	8.7	5.6	-2.8	-3.9	2.7	1.1	4.4
Antigua and Barbuda	7.2	5.1	2.1	0.6	-0.3	5.4	6.1	6.6	6.7
Dominica	7.3	5.5	5.6	5.5	4.7	4.0	3.4	4.0	5.8
Grenada	7.6	7.4	7.3	6.5	5.5	4.9	5.4	6.3	6.1
Montserrat	7.7	3.8	5.2	5.9	6.1	5.5	5.9	6.1	6.5
St. Kitts and Nevis	11.7	10.8	10.3	9.0	8.1	7.6	7.5	8.2	8.5
St. Lucia	8.2	7.5	7.3	7.0	4.2	3.8	3.7	4.6	5.1
St. Vincent and the Grenadines	12.3	11.0	11.0	10.7	9.4	7.4	7.1	7.1	7.3

[1]Correspond to locally incorporated banks only.

Sources: Eastern Caribbean Central Bank (ECCB); and IMF staff calculations.

Annex I. Implementation of Previous Staff Advice

Recommendations from the 2017 Common Policies Discussion	Policy Actions
Further Improve the Health and Stability of the Financial System	
Order corrective actions, including capital calls, as soon as possible from undercapitalized-but-viable banks identified in the asset quality reviews	
i. Update the 2014 asset quality reviews	No direct action has been taken.
ii. Undercapitalized but viable banks to submit sound capitalization plans to the ECCB. Unviable banks to exit the market in an orderly fashion.	While the 2014 AQRs have not been updated, section 44 (1) of the new Banking Act requires a minimum capital of EC$20 million for commercial banks. This represents an augmentation from EC$5 million under the previous Banking Act. Non-compliant banks continue working towards compliance by the statutory deadlines. Capital augmentation plans were submitted by banks as required and several have since received capital injections that support their compliance.
iii. Banks carry out their plans by a fixed deadline	Following the commencement of the Banking Act, banks have either implemented or altered their plans to satisfy the stipulated capital requirements. Further capital raising may be required to address capital shortfalls that may arise based on implementation of IFRS 9 and the ECCB's new prudential standards on collateral valuation (issued December 2017 and implemented June 2018) and treatment of impaired assets (for issue by end 2018 and implementation Q1 2019). The ECCB is assessing potential capital shortfalls to inform corrective measures to be required of the affected institutions.
iv. Noncompliant viable banks merge with or are acquired by other banks	These remain some of the options for undercapitalized banks and will be pursued if required.
v. ECCB to explore bank merger options that would reduce concentration and liquidity risks while improving profitability prospects.	The capital adequacy, corporate governance, concentration and liquidity risks, and profitability of the resulting institution(s) are some of the factors that will be properly assessed prior to applying/approving the merger option.
Operationalize the ECAMC	The ECAMC has been operating since July 2017, with a chief executive, its own staff, and a Board of Directors. By law, it has a dual mandate to: (i) conduct asset management business, including the purchase (in whole or in part), dealing with, managing and/or disposing of assets or liabilities from/of approved financial institutions (AFIs); and (ii) be the receiver for

Recommendations from the 2017 Common Policies Discussion	Policy Actions
	failed financial institutions (currently it is receiver for one of the three previous failed banks in the region). The ECAMC is now at a crossroads. Progress to full operationalization of its asset management mandate, supported by IMF TA, will require coordinated efforts by the ECAMC, the ECCB, and the stakeholder governments in terms of funding modalities, among other issues, as well as banks that are motivated to sell NPLs at realistic values. While the ECCB is not advocating that governments issue bonds to fund the ECAMC due to capacity constraints, territories with previously failed banks are prepared to provide more funding if necessary. However, if the ECAMC fails to identify sufficient workable (largely private sector) funding options and progress adequately towards acquiring a critical mass of NPLs within the statutory deadline of July 2019, IMF TA will be suspended and policy makers may decide that the ECAMC should limit its activities instead to a single mandate as a receiver.
Reform alien land holding laws in some jurisdictions (e.g., Anguilla) to facilitate the ECAMC's sale of the assets.	Limited progress. Due to constitutional issues, the ECAMC Law does not provide for exclusion from the Alien Landholding Law, as originally intended. In Grenada, OECS citizens purchasing land must obtain a non-citizen land holding license, but there is no license fee. However, they are required to pay a property transfer tax of 10 percent of the property's market value. In St. Kitts and Nevis, cabinet swiftly and frequently approves alien land holding.
Finalize harmonized legislation on credit unions and insurance sector. Extend it to building societies. Improve the frequency of financial reporting. Specify sanctions for non-compliant entities. Clarify definition of capital and procedures to address NPLs.	While a Harmonized Co-operative Societies Act was enacted between 2010 and 2012 by all but 2 countries, implementation—including for credit unions and building societies—remains outstanding as regulations to govern implementation of the Act continue to be subject to ongoing consultation and revisions among national regulators. The final responsibility and structure for oversight of these financial cooperatives is being considered by the ECCB and ECCU governments.
Enhance supervisory processes with respect to:	
i. Loan classification	Following extensive consultations with the accounting and banking industries, the ECCB's draft prudential standard on treatment of impaired assets (developed with input from the IMF and CARTAC TA) is being finalized for issue by year end 2018 and implementation in Q1 2019.

Recommendations from the 2017 Common Policies Discussion	Policy Actions
ii. Collateral valuation	The ECCB's prudential standard on collateral valuation was issued in December 2017 and implemented in June 2018. Bank examiners will continue to receive training in collateral valuation and the 2018/2019 pilot on-site examinations using the new risk based supervisory approach incorporate a compliance review in this regard.
iii. On- and off-site inspections	The enhanced risk based supervisory framework is being further developed with IMF TA. This includes the approach to risk-based supervision, streamlining the onsite examination process, surveillance and onsite examination reports, and developing supervisory manuals. Pilot RBS on-site examinations commenced in Q4, 2018. In addition to findings and required actions from on-site examinations being shared with the Boards of licensed financial institutions and the respective Ministers of Finance, they are now also shared with country representatives on the ECCB Board, to avoid the risk of respective governments not being briefed on a problem entity in their territory.
iv. Implementation of Basel II	The ECCB is currently receiving TA from CARTAC in this area. This includes technical advice, training and mentoring staff and assisting with enhancements to the risk-based supervisory framework and Basel II implementation. With CARTAC assistance, an initial roadmap for implementation is being finalized. A suite of draft Prudential Standards were submitted to the banking sector for comments by August 2016 and those not yet issued are being reviewed for finalization.
Eliminate the minimum saving deposit rate or restrict its applicability to small saving deposits	In 2015, the Monetary Council reduced the minimum savings rate from 3.0 percent to 2.0 percent. The impact on credit growth has been muted; banks continue to limit their risk exposure with tighter credit standards, despite the lowered cost of funds. Eliminating the minimum savings rate will be considered only when a deposit insurance system is in place.
Implement other structural reforms that would facilitate improving access to credit and reducing lending rates	
i. Draft regional foreclosure bill that aims to reduce the time and cost of resolving problem loans and securing collateral	The ECCB commissioned a very comprehensive report recommending reforms in land registration systems and foreclosure practices and procedures. These have been submitted for the consideration and approval of member governments. The governments of St Vincent and the Grenadines, Antigua and Barbuda, Grenada, Dominica, and Anguilla have approved the recommendations. The ECCB has identified a legislative drafting consultant to assist with the drafting of

Recommendations from the 2017 Common Policies Discussion	Policy Actions
	appropriate legislation and has contacted the World Bank for assistance with this project following approval by member governments. However, finalization and implementation of the legislation remains outstanding.
ii. Establish a regional credit bureau	Following passage of the credit reporting legislation in 2018, an operator was selected and is to be licensed by the first half of 2019. Operationalization of the oversight framework is being supported with TA from the IFC.
Improve the functioning of the RGSM by simplifying issuing procedures, reviewing auction mechanisms and brokers' fee structures	No significant steps have been taken.
Mitigate the risk of withdrawal of correspondent banking relationships	
Strengthen regulatory frameworks	
i. Strong governance of CBI programs	Regional vetting policy and procedures are being discussed by a committee of regional institutions charged with the issue by the OECS Authority. In line with the October 2016 decision by the Monetary Council, the ECCB has encouraged other ECCU countries to publish information on their programs as in Grenada; publication templates were submitted to the countries.
ii. Effective implementation of AML/CFT standards, including full compliance with the 2012 FATF standards and tax transparency standards	The ECCB assumed responsibilities as Competent Authority for AML/CFT for all institutions licensed under the Banking Act, as decided by the Monetary Council in July 2016. The ECCB is receiving TA from the U.S. Department of the Treasury. A needs assessment was completed in March 2017. Pending the legislative transfer of the authority for AML/CFT to the ECCB by all member territories, the ECCB and the relevant national regulators have commenced efforts towards the establishment of a Memorandum of Understanding for cooperation in information sharing and the conduct of AML/CFT assessments for institutions licensed under the Banking Act.
iii. Accelerate CARTAC-supported Basel II implementation and risk-based supervision in banking and non-banking sector	In 2018, the ECCB did pilot examinations of 3 banks using risk-based supervision methodology.
iv. Increase information sharing with correspondent banks	Regional national banks have registered on the SWIFT KYC Registry Portal, accessible by correspondent banks.
v. Bank consolidation	The ECCB has engaged the 12 indigenous banks at the Board and CEO levels and published a consultation paper on consolidation in the Union. In 2018, as a first

Recommendations from the 2017 Common Policies Discussion	Policy Actions
	step, indigenous banks are considering an approach for shared costs and services, and functional cooperation in support services such as audit and compliance. Some amount of consolidation/building market share may also result from the exit of foreign banks from certain jurisdictions.
Strengthen fiscal policy	
Pass national fiscal responsibility legislation (FRA) to enshrine the regional debt target and specify fiscal rules	Only Grenada and Anguilla have FRA. The ECCB is encouraging other member states to adopt FRA as well.
i. Include escape clauses in fiscal rules to suspend the rules temporarily in the event of a natural disaster	Only Grenada has an escape clause for natural disasters.
ii. Articulate medium-term fiscal adjustment strategies in the 2017 budgets, focused on primary balance targets excluding CBI revenues.	ECCU finance ministers have agreed to present their medium-term fiscal frameworks and discuss interim debt targets for 2020 and 2025 at the ECCB's Monetary Council on July 2017.
Internalize the expected costs of natural disasters in macro fiscal frameworks, including building necessary buffers.	Limited progress. Being considered in some jurisdictions.
Improve the overall PFM/PIMA framework	
i. Accounting practices to include a broader fiscal perimeter	Limited progress.
ii. Funding capital projects using CBI resources requires rigorous project evaluation and selection and sufficient resources to finance the project until completion (to avoid contingent liabilities for the government)	While there is limited progress in some countries (Annex IV), in Dominica the Public Sector Investment Plan explicitly accounts for the use of available CBI deposits as a source of financing, including in a three-year projection. Projects account for resilience against natural disasters.
iii. Improve capacity to design and manage PSIPs	Limited progress.
Adopt a comprehensive governance framework to mitigate increased risks from CBI programs	
i. Develop a regionally accepted set of principles and code of conduct that would set regional standards	Regional vetting policy and procedures are being discussed by a committee of regional institutions.
ii. Use CBI resources to reduce debt where possible.	

Recommendations from the 2017 Common Policies Discussion	Policy Actions
Build resilience to natural disasters	
Shifting from ex-post relief to ex-ante preparation	
i. Prepare plans for investment in climate change adaptation, financing, risk management	St. Lucia has undertaken a Climate Change Policy Assessment (CCPA) pilot, finalized a National Adaptation Plan, but the costing needs to be completed. Grenada is finalizing a comprehensive strategy and is about to undertake a CCPA pilot.
ii. Save a significant portion of CBI resources to a fund to address natural disaster shocks and finance disaster resilient infrastructure.	Some countries are considering setting up saving funds for natural disasters or are in the process of doing it.
iii. Enforce building codes	Limited progress.
Enhance Competitiveness and Potential Growth	
Implement national plans to diversify energy sources	Progress has been made, but there are delays relative to the national targets. Dominica and St. Vincent and the Grenadines are investing in geothermal electricity to replace all or most diesel generation. Projects are targeted for completion by end-2018.
Continue to move forward with regional collaboration	
i. Develop a single domestic space	Agreement was reached on the guidelines for the free circulation of goods regime and a draft bill on the free circulation of goods is being reviewed by OECS member states. OECS nationals are free to work in any ECCU country without work permits and given indefinite stay, Revised Treaty of Chaguaramas (RTC). The market integration strategy includes the Integrated labor market/movement of persons, common market for goods, strengthening ICT systems, harmonizing taxes and administrative procedures, single jurisdiction for business, common market for services, the establishment of the OECS Competitiveness Business Unit (CBU), policy harmonization on agriculture, tourism, education, human, social and environment.
ii. Identify systems for harmonized border management	Is part of the newly adopted regional integration strategy. On-going.
iii. Visitors to move freely within the region	On-going.
iv. Address issues with the regional airline	In November 2016, the OECS Economic Affairs Council approved a Regional Air Services Agreement on the harmonization of air services in the OECS. The

Recommendations from the 2017 Common Policies Discussion	Policy Actions
	agreement is approved by Third meeting of the Economic Affairs Council.
v. Implement single regional regulatory authority for non-banks	The Eastern Caribbean Financial Services Commission has completed the initial stage of the process, including public consultations on draft legislation. A revised plan for the next phases is expected to be approved soon.
Adopt policies to reduce unit labor costs and boost employment	
i. Better align wage growth with productivity growth	Limited progress.
ii. Improve labor market flexibility	Some attempts to introduce personnel shifts in hotels and port operations.
iii. Control public wage growth, including by implementing civil service reform	Grenada has developed a public service reform strategy to be implemented in 2017-2019. Wage freezes and attrition policies are still in effect in some countries.
iv. Strengthen labor-training programs	Some programs are being revaluated and reformed, such as in St. Kitts and Nevis. Grenada has implemented several well operationalized training programs.
Improve macroeconomic statistics	
Strengthen labor market, balance of payments, and government finance statistics	
i. Remove legal obstacles to the use of fiscal information to supplement business survey data when response rate is low	Limited progress.
Ensure consistency of CBI flows with BPM6	A survey form prepared for BPM6 is administered in each country for the compilation of the BOP, which entities use to report on receipts and payments of CBI flows.

Annex II. Risk Assessment Matrix[1]

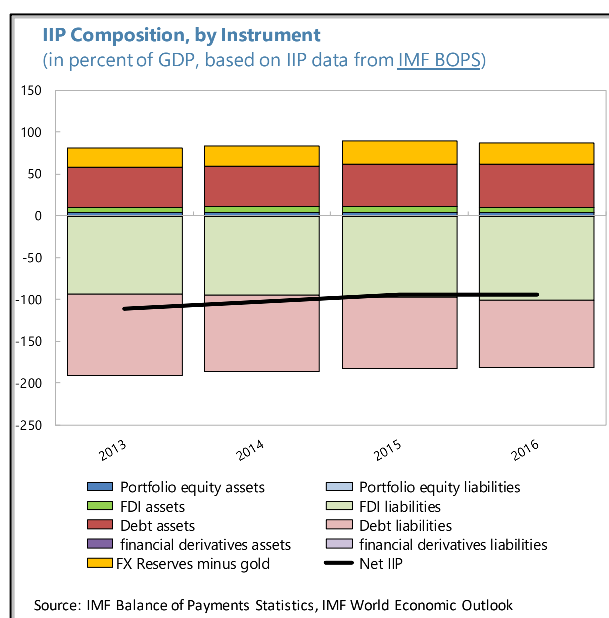
Source and direction of risks	Relative Likelihood	Impact/Time Horizon	Policy response
Rising protectionism and security risks (↓). Uncertainty and financial market volatility increases in the short term, with negative consequences on investment. Security risks intensify in the Middle East, Africa, Asia, and Europe. Lower global growth impacts the region, mainly though reduced tourist inflows.	**High**	**High/ST, MT**	Reduce external and fiscal vulnerabilities. Accelerate fiscal adjustment, particularly where it is needed to reduce debt rollover risks and attain sustainability. Implement structural reforms to improve the business environment and enhance competitiveness.
Sharp tightening of global financing conditions (↓) triggered by a sharper-than-expected increase in U.S. interest rates.	**High**	**High/ST**	Pursue fiscal adjustment to reduce financing risks and the risk premium.
Larger and more frequent natural disasters (↓). Hurricanes and floods intensify, causing increasing damage, destruction of physical capital, and lower tourist arrivals.	**High**	**High/MT**	Build a consistent framework with investment in resilience and appropriate ex ante financing, including fiscal buffers.
Reduced financial services by correspondent banks (↓). The significant curtailment of cross-border financial services, in emerging and developing economies, seems to have stabilized in the ECCU.	**Medium**	**Medium/ST, MT**	Continue efforts to strengthen compliance with AML/CFT and tax transparency standards. Promote bank consolidation. Further enhance transparency in CBI programs. Explore alternative options for correspondent banking services.
Macroeconomic instability in systemic countries (↓). Debt sustainability issues in the Euro area; binding capacity constraints in the U.S.; insufficient progress in deleveraging and rebalancing in China; unsustainable macroeconomic policies in other systemic countries.	**Medium**	**High/MT**	Reduce external and fiscal vulnerabilities. Strengthen the fiscal position and implement structural reforms.
Sizeable deviations from baseline energy prices (↓↑). Growth in the ECCU would suffer/benefit from higher/lower oil prices.	**Medium**	**High/ST, MT**	Address cost and structural competitiveness disadvantages, including high dependence on hydrocarbon fuels, high energy prices, and other bottlenecks that weigh on businesses.
Cyber-attacks and pressure on traditional bank business models (↓) may trigger systemic financial instability or disrupt socio-economic activities.	**Medium**	**Medium/ST, MT**	Prepare appropriate crisis management plans. Strengthen financial sector regulation and supervision.
Financial sector weakness (↓) High NPLs are increasing again; fast narrowing window for ECAMC to acquire NPLs; distress in non- bank financial sector has materialized.	**High**	**High/MT**	Promptly implement remaining elements of the ECCU strategy to strengthen indigenous banks. Enhance regulatory and supervisory frameworks for non-banks.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" (ST) and "medium term" (MT) are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex III. External Assessment

The external position of the ECCU in 2017 was weaker than implied by medium-term fundamentals and desirable policies. EBA-Lite analysis indicates that the REER for the union is overvalued. In 2018, the current account deficit is projected to widen as recovery in hurricane-hit countries continues. Imbalances at the national level remain sizeable and considerable policy adjustments are needed, especially on the fiscal front. Structural competitiveness indicators point to a need to raise productivity and competitiveness mainly through improving business indicators, reducing energy and unit labor costs.

1. Foreign asset and liability position. The net international investment position (NIIP) of the ECCU has reached -83 percent of GDP in 2016, with an improvement of about 4 percent of GDP since 2015. Gross foreign positions were about 92 percent of GDP of assets (US$6.3 billion, mostly debt and foreign exchange reserves) and 175 percent of GDP (US$12 billion, mostly FDI and debt) for liabilities in 2016.[1] Net external liabilities remain high in almost all countries, especially in Grenada and St. Vincent and Grenadines. The region's overall NIIP financing vulnerabilities appear to be high, especially in the outer years of the projected period when large FDI projects fade away.



Source: IMF Balance of Payments Statistics, IMF World Economic Outlook

2. Current Account. Revised BPM6 statistics released in September 2018 show slightly widened current account deficits compared to the June release for all years, but still presents smaller external deficits throughout the region, compared to BPM5 estimates. With trends broadly similar, the current account in 2016 is now largely negative. Most of the revision is explained by services, as travel expenditures are now based on updated tourist expenditure surveys and include some activities at offshore universities. These changes present a challenge in evaluating the magnitude of misalignments for individual countries.

[1] The ECCB will publish the 2017 IIP position for the union in March 2019.

Current Account Data Revisions
(In percent of GDP 1/)

	2014					2015					2016				
	BPM5	BPM6	*change*	Revised BPM6 2/	*change*	BPM5	BPM6	*change*	Revised BPM6	*change*	BPM5	BPM6	*change*	Revised BPM6	*change*
Current Account Balance															
ECCU	**-13.6**	**-4.7**	*8.9*	**-5.4**	*8.2*	**-10.0**	**-1.4**	*8.6*	**-4.3**	*5.7*	**-11.9**	**-5.4**	*6.5*	**-7.7**	*4.2*
Anguila	-20.9	-25.5	*-4.6*	-24.0	*-3.1*	-21.3	-18.1	*3.2*	-26.9	*-5.6*	-24.6	-29.4	*-4.8*	-27.0	*-2.4*
Antigua and Barbuda	-12.5	2.0	*14.5*	0.6	*13.1*	-5.2	6.8	*12.0*	3.8	*9.0*	-5.9	0.2	*6.1*	-2.7	*3.2*
Dominica	-9.5	-7.2	*2.3*	-6.9	*2.6*	-8.0	-1.9	*6.1*	-6.9	*1.1*	-11.8	0.8	*12.6*	-8.4	*3.4*
Grenada	-17.5	-4.4	*13.1*	-10.9	*6.6*	-17.5	-3.8	*13.7*	-11.0	*6.5*	-14.6	-3.2	*11.4*	-10.1	*4.5*
Montserrat	-20.3	-20.5	*-0.2*	-21.0	*-0.7*	-2.8	-9.7	*-6.9*	-9.9	*-7.1*	-9.8	-14.1	*-4.3*	-21.4	*-11.6*
St. Kitts and Nevis	-8.1	-4.9	*3.2*	-0.7	*7.4*	-9.2	-9.7	*-0.5*	-10.3	*-1.1*	-16.0	-11.4	*4.6*	-12.6	*3.4*
St. Lucia	-8.9	3.3	*12.2*	0.8	*9.7*	-2.6	6.8	*9.4*	4.2	*6.8*	-6.7	-1.9	*4.8*	-3.4	*3.3*
St. Vincent	-25.1	-25.7	*-0.6*	-25.8	*-0.7*	-21.2	-14.9	*6.3*	-14.5	*6.7*	-18.9	-15.8	*3.1*	-15.2	*3.7*

Sources: ECCB; Central Statistics offices.
1/ BPM5 columns show IMF staff estimates, BPM6 columns show official ECCB data.
2/ September 2018 revision by ECCB.

The current account (CA) deficit of the ECCU reached an estimated 8.0 percent of GDP in 2017, slightly up from 7.7 percent in 2016.[2] Most ECCU countries are running CA deficits but have shown some improvement in their external balances compared to 2016 with newly released data. The current account deficit is projected to worsen in 2018, reflecting increased construction imports to Dominica and Antigua and Barbuda. In the medium term, the deficit should stabilize around 6.7 percent of GDP. The EBA-Lite model estimates a CA norm of -5.2 percent of GDP excluding volatile CBI flows and -3.1 percent including them. This implies a CA gap -6.0 percent of GDP, excluding CBI flows, and -2.4 percent of GDP, including CBI flows, and an overvaluation of 14.6 and 5.9 percent respectively.[3] Fiscal policy adjustment is needed in many countries to reduce overvaluation in the context of the quasi-currency board.[4]

EBA-Lite Estimates

	CA approach						I-REER approach
	CA norm	Actual CA	CA gap	Policy Gap	REER Gap	Residual	REER Gap
ECCU aggregated (incl. CBI)	-3.1	-5.6	-2.4	-0.3	5.9	-2.1	0.2
ECCU aggregated (excl. CBI)	-5.2	-11.2	-6.0	1.7	14.6	-7.7	0.0
ECCU weighted average (GDP) 1/	-2.5	-7.5	-3.9	0.4	9.9	-5.4	1.6
ECCU weighted average (GDP) 1/	-1.5	-7.7	-5.1	-0.1	13.1	-6.1	1.4

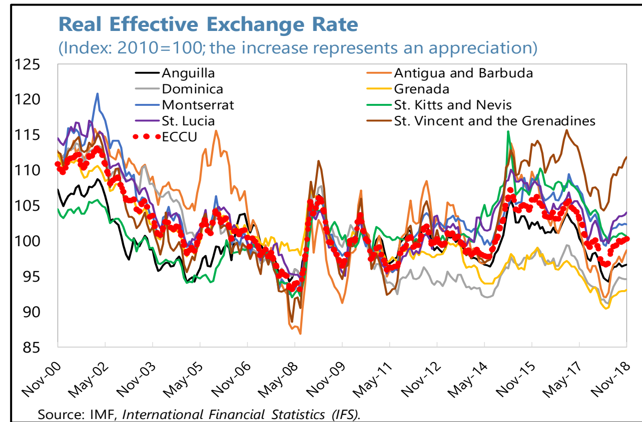
1/ Including CBI.
Source: IMF staff calculations.

[2] The EBA-Lite estimates use an adjusted figure for current account as described in the footnotes to the table for EBA-Lite estimates.

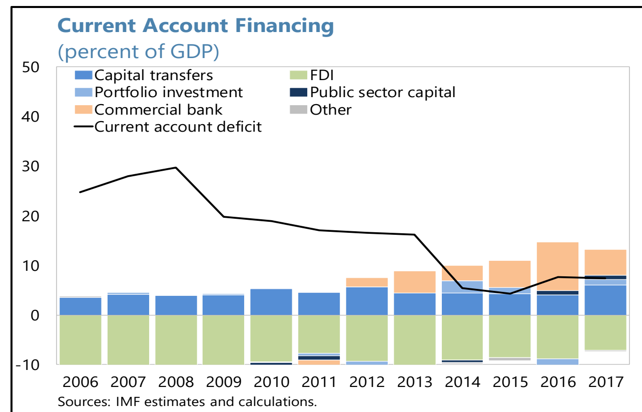
[3] The relatively large residuals in the estimates could also indicate structural policy gaps further hampering competitiveness.

[4] The IMF EBA-Lite analysis for the ECCU covers eight members, which are Anguilla, Antigua and Barbuda, Dominica, Grenada, Monserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. The assessments of CA and REER gaps for the ECCU are derived from the aggregate template treating the union as a single country. A comparative analysis is also done by GDP-weighted averages of the assessments of the individual countries listed above with similar results.

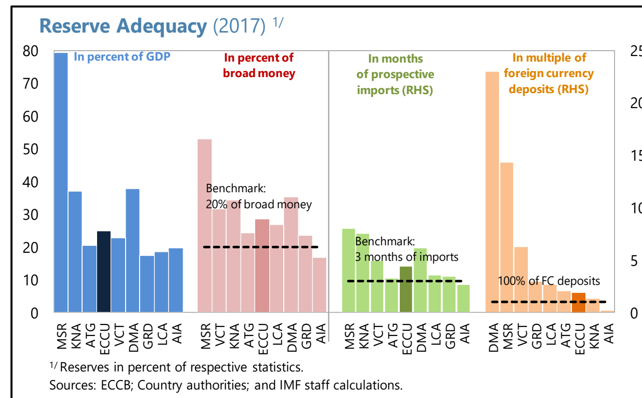
3. Real Exchange Rate. The CPI-based real effective exchange rate depreciated by about 4.2 percent in 2017, mostly reflecting the weakening of the U.S. dollar during the same period and low inflation levels in the ECCU. The EBA-Lite index REER model points to a misalignment of less than 1 percent, which reflects the recent REER adjustment. Although there are large differences in individual country REER gaps, most countries show an overvaluation.



4. Capital and financial accounts. The 2017 CA deficit is largely financed by FDI inflows, capital transfers and other investment, particularly commercial bank financing. In the medium term, FDI inflows will be substantially reduced following the completion of construction projects, particularly in hurricane-hit countries.



5. Reserve adequacy. The relevant statistics for measuring reserve adequacy for a quasi-currency board like the ECCU are reserves in percent of broad money, which are adequate at 28.5 percent. Following Mwase (2012) to account for reserve adequacy needs for small states that are subject to natural disasters and external shocks, staff applied the revised metric taking into account now exports and short-term debt in addition to broad money metric. With this metric staff finds ECCB's reserves adequate at 100 percent of the proposed threshold. For the medium term, with some deterioration owing to large current account deficits in Dominica and Antigua and Barbuda, reserves position in months of imports is expected to be slightly lower than the 2017 levels.



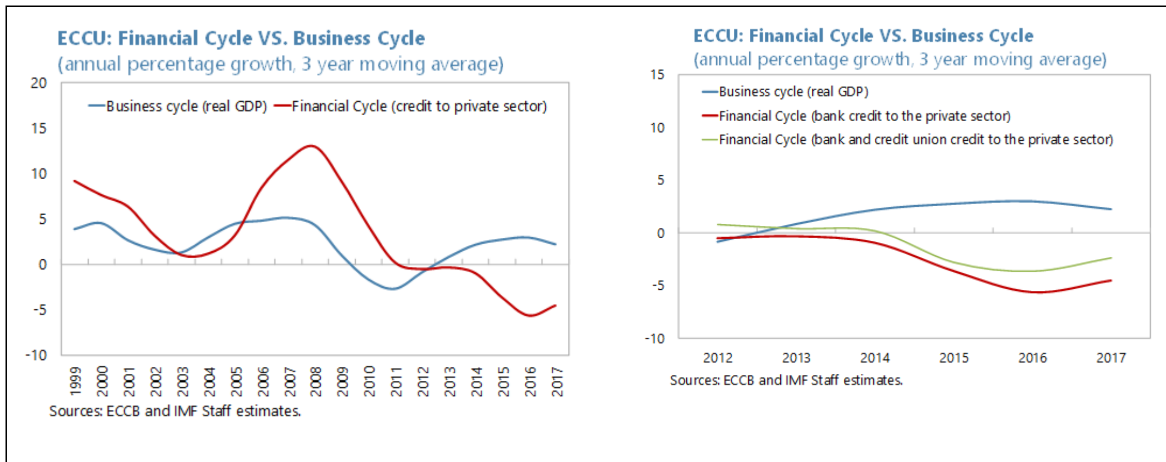
Reserve Metric for the Currency Unions
(million US dollars)

	2017
20 percent of exports	75.7
20 percent of broad money	1223.3
80 percent of short term debt	352.2
Total	**1455.6**
in percent of GDP	7.6
Threshhold 75 percent	1091.7
100 percent	1455.6
Actual, 2017	**1745.2**
in percent of GDP	9.1

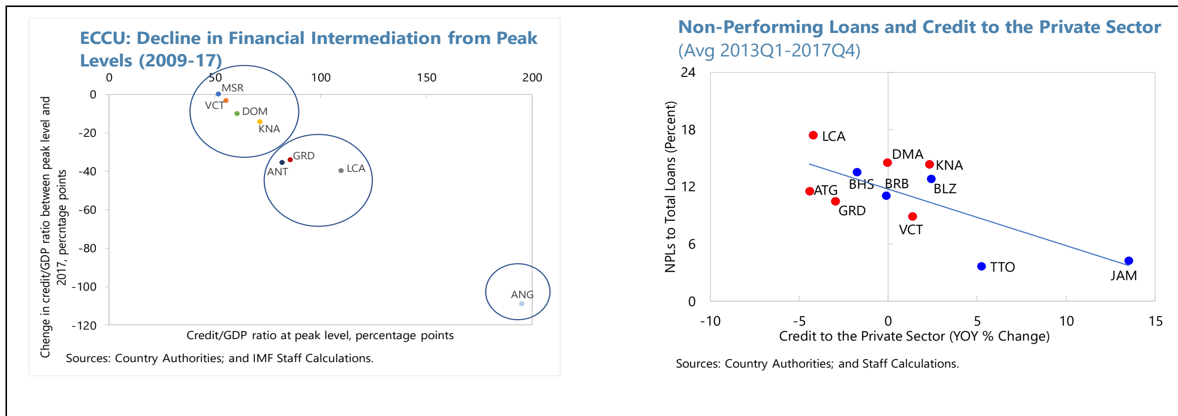
Source: Mwase (2012).

Annex IV. Real and Financial Cycles in the ECCU

1. **As in other parts of the world, ECCU's financial cycles tend to have a larger amplitude and duration than business cycles**. After the global financial crisis (GFC), this difference became more pronounced in the ECCU, with a lengthening of the credit cycle and a protracted period of financial disintermediation. While real activity began to recover in 2011, financial activity kept declining through 2017, and currently remains well below trend. The inclusion of credit unions—data are available only for recent years—moderates the decline in total credit but does not change the picture significantly.



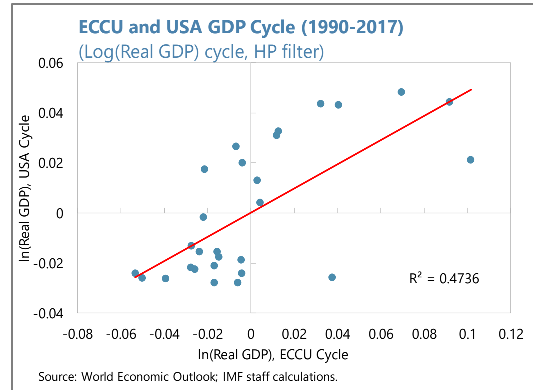
2. **Pressures for the withdrawal of CBRs in the region may have contributed to the reduction of financial intermediation, but country-specific factors had a key role**. These include the resolution of failed banks in Anguilla and Antigua and Barbuda and significant increases in CBI-related NPLs.



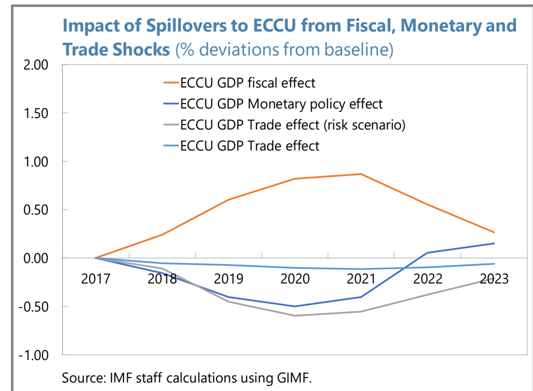
3. **The overall decline in NPLs after 2015 and the return of the credit-to-GDP ratio to levels prevailing 20 years ago should support the incipient credit recovery, though its pace may continue to lag real activity**. Important differences remain across ECCU members: the ongoing turnaround in Grenada —where the NPL ratio declined rapidly and credit is now below the regional average in terms of GDP— looks more robust than in St. Kitts and Nevis or St. Lucia, where the credit-to-GDP ratio remains relatively high. Enhanced supervision and regulation, upgrading of the insolvency and foreclosure laws, and faster NPL resolution would further sustain the turnaround in credit.

Annex V. Impact of US Shocks on the ECCU

1. Staff used several methodologies to assess the impact of recent economic events in the US on ECCU. Staff considered: (i) the passage of the Tax Cuts and Jobs Act in December 2017 in the US; ii) adoption of an array of import tariffs in the US and major trading partners[1] and the (iii) monetary policy normalization in the US. The impact of the highlighted isolated shocks is simulated using a version the IMF's Global Integrated Monetary and Fiscal model (Kumhof et al, 2010); and a Global VAR model (Vargas et. al., 2018, forthcoming).



2. Stylized facts indicate that the impact of these shocks on the ECCU could be relatively sizable. First, about 40 percent of all tourist arrivals to ECCU are from the US. Second, following the methodology of Sun and Wendel (2009), staff found a high degree of co-movement between US and ECCU business cycles.



3. While the expansionary fiscal policy in the US will have a positive impact on ECCU economies, the outcomes of trade tensions would have an adverse effect. In both cases, the main channel for transmission is the effect of these policy shocks on US output, and therefore on US demand for tourism services provided by the ECCU. The results from the pure fiscal effect indicate a large positive impulse for the ECCU for the projected period. The effects of recent trade tensions can however have negative effects on the growth path of the ECCU, especially if trade disputes exacerbate with adverse confidence and market effects (risk scenario).

4. More-rapid-than-expected normalization of monetary policy creates negative spillovers to the ECCU. The main channel of transmission is the need to tighten monetary policy in the ECCU by an equivalent magnitude, given the peg of the EC dollar and the assumption of interest rate parity in GIMF. However, results from a Global VAR model suggests that impact could be more muted, since the interest rate parity holds only partially.

5. The overall impact of these three policies in isolation would reduce ECCU GDP by about 0.3 percent over the simulation period if the trade dispute exacerbates.

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[1] The tariff scenario is based on recent analysis done at the IMF (Fall 2018 WEO). It incorporates already implemented tariff hikes on U.S. imports of steel (25 percent) and aluminum (10 percent); a 25 percent tariff on US$50 billion worth of U.S. imports from China; with retaliation from all affected regions consisting of an increase in tariffs on an equivalent amount of U.S. exports. The alternative scenario also adds an additional 25 percent tariff on US$267 billion worth of U.S. imports from China, with retaliation, and a possible 25 percent increase in tariffs on U.S. imports of vehicles, again with retaliation from all affected regions on an equivalent amount of U.S. exports. Tariffs are raised permanently. Adverse confidence and market effects are also included in the alternative scenario.

Annex VI. Competitiveness in Tourism Markets

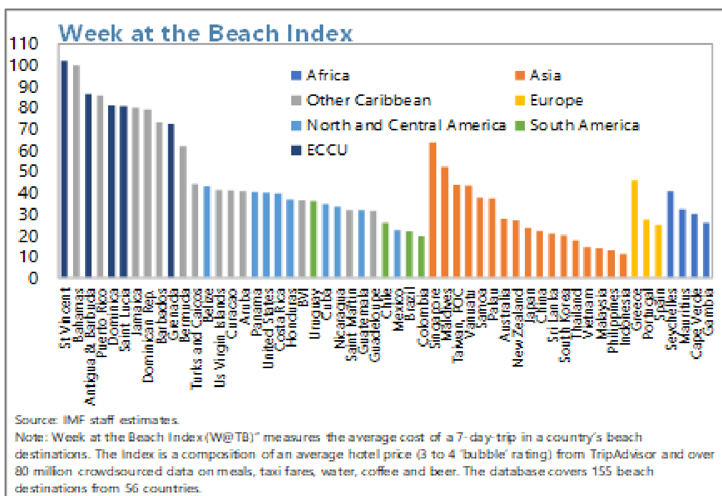
1. The ECCU, as well as the broader Caribbean, enjoys a competitive advantage for its proximity to the North-American tourism market. Following Romeu (2014) and Acevedo et al. (2017), staff estimated a gravity model using countries and regions included in the Week- at-the-Beach index (IMF, 2018) as comparators for the period of 1977-2017. Results show that proximity to North America provides an important competitive edge in those markets, controlling for supply side factors, such as the number of hotel rooms, natural disasters, number of airlines or air flights, or demand factors, such as unemployment or income in the source countries or cultural and historical relations.

Regression Results: Gravity Model 1/

Distance 2/	-0.00068***
	(0.00000)
Common language	4.35278***
	(0.00000)
Colonial ties	3.50044***
	(0.00000)
	0 .62909***
Weighted average of US, Canada and UK incomes per Laframboise (2014) 3/	(0.00000)
Real Effective exchange rate	-0.16236
	(0.18140)
Homocide rate	0.04879
	(0.71620)
Hurricanes	-2.96071
	(0.14820)
Number of airlines	-0.43938
	(0.06410)
Number of hotel rooms	2.5778***
	0.0000
Number of observations 5/	12,931
R- squared	0.9637
Adjusted R- squared	0.9472

Sources: CEPII GeoDist database; Country authorities; IMF staff estimates.
1/ The dependent variable is the log of bilateral stay-over tourist arrivals to ECCU destination i from advanced economy j (grouped as US, Canada, Europe and Other).
2/ Distance is measured in population weighted kilometers.
3/ The results replacing US income are also significant.
4/ p values in parenthesis
5/ Our sample size is reduced significantly with the specification that includes hurricanes.

2. Available indicators, however, suggest that the ECCU tourism product is relative expensive. The Week-at-the-Beach index shows that the cost of one week at the beach in the Caribbean is significantly higher than in other tourism destinations around the world. This likely reflects high unit labor and electricity costs, which are a competitive disadvantage for the region.



Source: IMF staff estimates.
Note: Week at the Beach Index (W@TB)" measures the average cost of a 7-day-trip in a country's beach destinations. The Index is a composition of an average hotel price (3 to 4 'bubble' rating) from TripAdvisor and over 80 million crowdsourced data on meals, taxi fares, water, coffee and beer. The database covers 155 beach destinations from 56 countries.

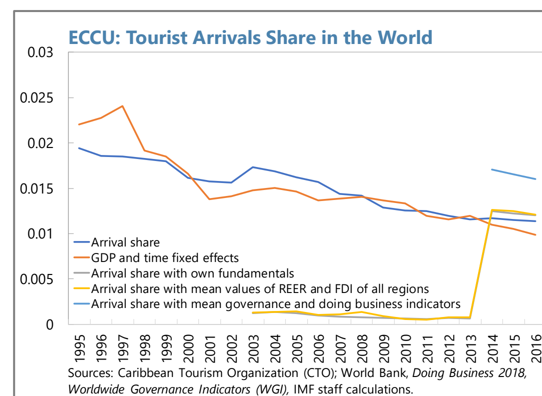
3. Evidence shows that price is an important determinant of tourism arrivals in the ECCU. Proximity and traditional links identify North America and the U.K. as the most important source markets for the region. Staff's analysis confirms that income and unemployment in source markets, price, and airlift are the most important determinants of tourism arrivals to the Caribbean (Laframboise et al., 2014). To gauge the specific impact on ECCU countries, staff has re-estimated Laframboise et al. (2014) only for ECCU countries extending the sample to 2017. While the results for the ECCU are less reliable owing to the smaller sample, they suggest that: (i) ECCU tourism is more sensitive to REER than the rest of the Caribbean, despite the high-end, less-price sensitive tourism that characterizes some of the ECCU destinations; (ii) income and unemployment in source countries are consistently significant; (iii) the number of airlines is also a significant factor.

Determinants of Tourism Arrivals and Expenditure 1/				
	Tourism arrivals		Tourism expenditures	
Independent variables	Laframboise et al. (2014) 2/	ECCU only 3/	Laframboise et al. (2014) 2/	ECCU only 3/
ΔLn (Tourism weighted real exchange rate)	-0.158***	-.459**	-0.105***	-1.222***
	(0.00982)	(0.19486)	(0.0312)	(0.45698)
ΔLn (US income) 4/	1.04***	1.145**	1.95***	1.139*
	(0.22)	(0.48896)	-0.53	(0.68453)
ΔLn (weighted average of US, Canada and UK incomes)	0.30***	.616***	0.67***	.681**
	(0.07)	(0.19362)	(0.14)	(0.27237)
ΔTourism weighted unemployment rate	-2.081***	-2.439**	-3.724***	-.5094
	(0.429)	(1.078)	(0.492)	(2.102)
Δ Hurricane 5/	-0.0138**	0.0353	-0.0224**	0.0185
	(0.00597)	(.02491)	(0.00965)	(.02915)
ΔSept.11 terrorist attacks	-0.0229***	-.0303***	-0.0286**	-0.01325
	(0.00625)	(0.00692)	(0.0122)	(.01266)
ΔHomicide rate	-0.0011	0.0012	-0.00141	-0.00088
	(0.00101)	(0.00072)	(0.00130)	(.00161)
ΔLn(Number of airlines)	0.0846***	.0644**	0.0928***	0.05652
	(0.0175)	(.02759)	(0.0313)	(0.0463)
ΔLn(Number of hotel rooms)	-0.0104	-.0591	0.0263	0.1053
	(0.0659)	(.03164)	(0.0668)	(0.1079)
Country fixed effects	Yes	Yes	Yes	Yes
Observations	141	72	139	72
Number of instruments	133	70	131	70

Sources: Caribbean Tourism Organization; Country Authorities; Staff Estimates.
1/ Robust standard errors in parenthesis.
2/Sample 2000-2013.
3/Sample 2000-2017. To deal with the endogeneity between hotel rooms/airlines with tourism arrivals and expenditure, staff uses GMM-Arellano-Bond regressions.
4/ Laframboise et al. (2014) use ΔLn(US household net wealth), which also significantly affects tourism arrivals and expenditures. Subsequent updates of this work use both US and weighted average income of major tourism destinations with significant results. The authors only run panel OLS fixed effects model including these variables.
5/ Hurricanes are significant in panel OLS regressions.

4. Relaxing supply-side constraints and bottlenecks would improve ECCU's competitiveness on the global tourism market and allow the region to regain market shares. Using a time fixed-effects model, staff analyzes the impact of supply-side factors (doing business and governance indicators, tariffs, crime and security, and natural disasters) while controlling for GDP, FDI, and the REER and compare the results with tourism destinations included in the Week-at-the-Beach index for the period 1995-2016. Our results show that improving on doing business and governance indicators to the sample average would increase the ECCU's global market share by 40 percent.

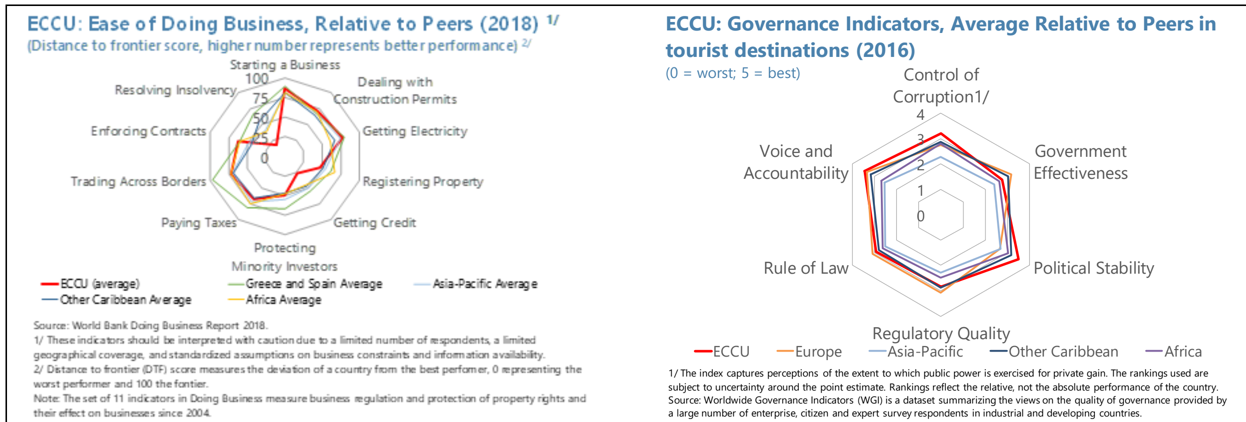
ECCU: Tourist Arrivals Share in the World



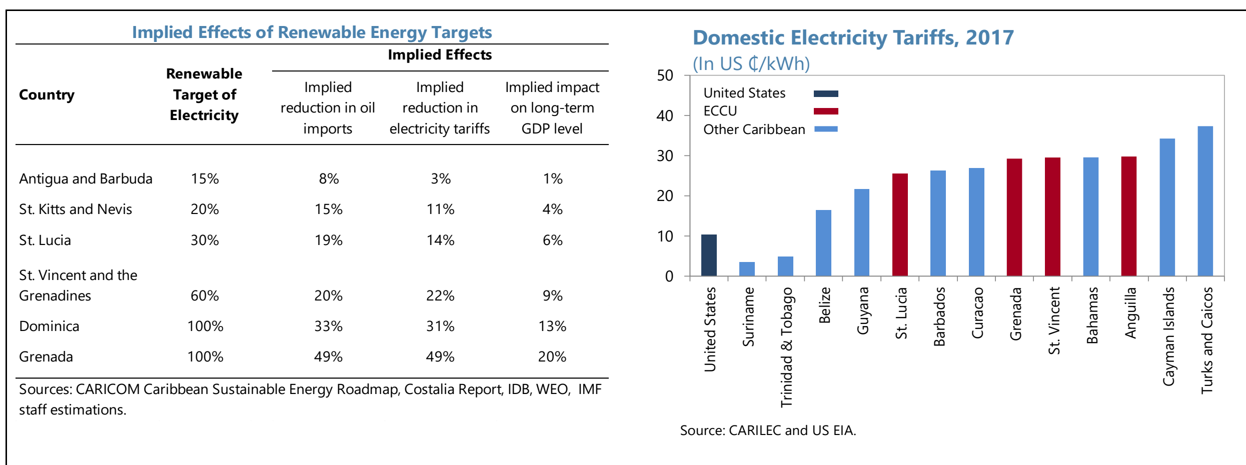
Sources: Caribbean Tourism Organization (CTO); World Bank, *Doing Business 2018, Worldwide Governance Indicators (WGI)*, IMF staff calculations.

Improving non-Price Indicators

5. Ease of doing business and governance. According to the World Bank Doing Business indicator, critical areas are access to credit and insolvency resolution. Rankings in ease of trading across borders, registering property, and paying taxes are largely in line regional peers, but well below advanced economies. Progress in any of these areas since the 2010 has been marginal. Governance indicators, such as government effectiveness, regulatory quality, and rule of law, lag behind peers.



6. Electricity and transportation costs. Despite some reduction in electricity tariffs in recent years, energy costs are still very high, reflecting dependence on imported petroleum products, inefficiencies in the power sector—owing to lack of economies of scale and a difficult terrain, slow progress in renewable energies, weak institutional capacity both at national and regional levels related to energy efficiency standards, and deficiencies in regulatory frameworks. They also affect directly consumers, with average monthly electricity bill three times bigger than in the U.S. and double that in most Latin American countries. The potential for increasing the use of renewable energies in the region is significant and could a have considerable impact on reducing oil dependency, tariffs, and transportation costs.

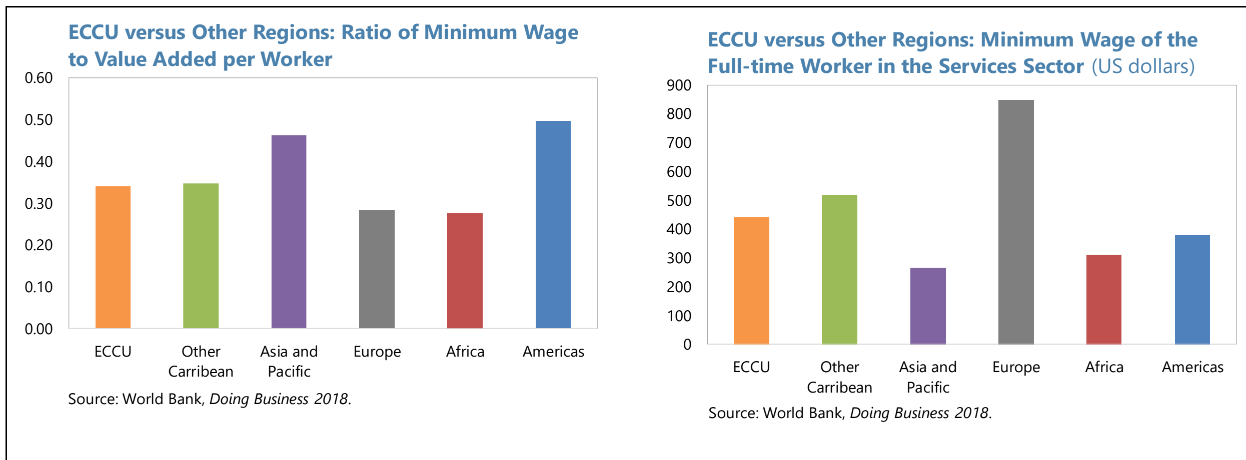


Implied Effects of Renewable Energy Targets

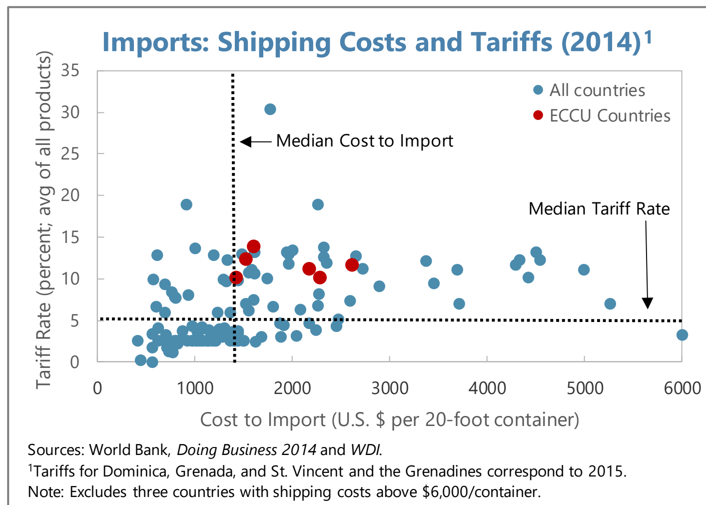
Country	Renewable Target of Electricity	Implied Effects		
		Implied reduction in oil imports	Implied reduction in electricity tariffs	Implied impact on long-term GDP level
Antigua and Barbuda	15%	8%	3%	1%
St. Kitts and Nevis	20%	15%	11%	4%
St. Lucia	30%	19%	14%	6%
St. Vincent and the Grenadines	60%	20%	22%	9%
Dominica	100%	33%	31%	13%
Grenada	100%	49%	49%	20%

Sources: CARICOM Caribbean Sustainable Energy Roadmap, Costalia Report, IDB, WEO, IMF staff estimations.

7. Labor markets. Evidence shows that wages in public sector and tourism lead other sectors, regardless of productivity development. Public wages in the majority of ECCU countries are higher than the median public wage in small states, in terms of expenditure and revenue, and minimum wages in the services sector are higher than in most comparable tourist destinations globally —although lower than in other Caribbean countries. Skill mismatches are mainly related to the shift from agricultural employment towards public sector and tourism. The de-link between wages and productivity, together with large skill mismatches, can help explain high structural unemployment, particular among the youth. Enhancing education and vocational training should help alleviate the skills mismatch problem in the region. Regional integration would help address the small size of internal markets and high costs.



8. Tariffs and costs to import. Import costs are high compared to other countries in the world. This is especially critical as tourism, a key industry in the region, requires substantial amounts of imported intermediate goods. Elevated shipping costs and tariffs compromise the ability of businesses to operate profitably.



Sources: World Bank, *Doing Business 2014* and *WDI*.
[1]Tariffs for Dominica, Grenada, and St. Vincent and the Grenadines correspond to 2015.
Note: Excludes three countries with shipping costs above $6,000/container.

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Annex VII. United Kingdom Overseas Territories—Anguilla and Montserrat

Anguilla

1. **Real GDP growth in Anguilla is expected to recover following the catastrophic impact of hurricane Irma in 2017.** Real GDP declined by 7.7 percent in 2017, largely driven by the sudden stop of tourism inflows by 15.5 percent in the last part of the year. Hotels and supporting infrastructures were severely damaged and value added in hotels and restaurants fell by 16 percent. Activity also declined in mining, construction, manufacturing, financial, and the utilities sectors. With tourism slowly recovering and reconstruction-related activity rising strongly, growth is expected to rise to 4 percent in 2018. The overall fiscal balance was slightly positive at 0.6 percent of GDP in 2017. Owing to additional needs arising from the debt obligations of two SOEs, Water Corporation and Anguilla Development Board, the fiscal balance is expected to worsen to -0.2 percent of GDP in 2018. Growth is to settle in the medium term at around 3 percent based on continued growth of high-end tourism, the progress made in stabilizing the financial sector, and expected success in fiscal consolidation.

2. **Progress has been made in the resolution of two insolvent banks, but uncertainty still exists over the valuation of the exchanged assets and extent of fiscal cost borne by the government.** Pursuant to a Purchase and Assumption Agreement (P&AA), certain assets and all liabilities—except deposits of off-shore subsidiaries and customers deposit balances place in the Deposit Trust—of two intervened legacy commercial banks (National Commercial Bank (NCB) and the Caribbean Commercial Bank (CCB)) were transferred to a newly-created bridge bank, National Commercial Bank of Anguilla (NCBA) in 2016. The failed banks were placed in receivership. A Depositor Trust was created in which the deposits' balances over EC$2.8 million were placed with repayments to be effected by the government over a ten year period at low interest rates. NCBA was subsequently fully recapitalized by the government in mid-2018 with the proceeds of a loan from the CDB following the signing of a put back agreement between the receiverships and the bank to exchange assets within a pool of NPLs. The ECCB is to appoint an independent valuator to value the pool of assets subject to exchange. On conclusion of that valuation, the put back transaction will be finalized and NCBA plans to move into NPL collections. The bank is also considering selling NPLs to the ECAMC. Losses on valuation under the put back arrangement will be borne by the receiverships and the net flows from NPL realization would be used to offset the cost of the trust borne by the government. Transfer to the ECAMC of the receivership functions is expected after the finalization of the put back transaction.

3. **The exit of FCIB and the announced intended exit of Scotiabank from the ECCU region will materially impact Anguilla's commercial bank market.** The shrinkage from three to two banks will result in less competition. Although the remaining franchises currently hold equal market share of 45 percent each, concentration is expected to deepen. Additionally, notwithstanding the positive prospect in the gain of a regional bank, the exit of two global banks in quick succession could result in heightened withdrawal risk.

Annex Table 1. Anguilla: Selected Indicators, 2014-24

I. Social and Demographic Indicators[1/]

Population (thousands, estimate)	14.9	Infant mortality rate (deaths/1000 live birth	3.4
Population below poverty line (percent, 2002)	23.0	GDP per capita (US$)	18,826
Average life expectancy at birth (years, 2016)	81.3	GDP at market prices (US$ million)	281.2
Literacy rate (percent of population, 2016)	95.0	Share in regional GDP (percent)	4.0

II. Economic and Financial Indicators

					Proj.						
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				(Annual percentage change)							
National income and prices											
Real GDP	5.1	3.1	-1.3	-7.7	4.0	6.0	3.0	2.8	2.8	2.8	2.8
GDP deflator	-0.3	-1.0	-0.5	1.3	1.4	2.0	2.3	2.3	2.3	2.3	2.3
Consumer prices, average	-0.3	-1.0	-0.5	1.3	1.4	2.0	2.3	2.3	2.3	2.3	2.3
Consumer prices, end period	-0.9	-1.7	1.7	1.3	1.6	2.0	2.3	2.3	2.3	2.3	2.3
Monetary sector											
Broad money (M2)	0.9	3.2	-5.9	-11.3	5.5	8.1	5.3	5.1	5.1	5.1	5.1
				(Annual change, in percent of M2 at the beginning of the year)							
Net foreign assets	2.9	6.0	9.9	-13.0	3.5	5.7	2.8	2.6	2.6	1.9	1.3
Net domestic credit	-2.0	-2.8	-15.8	1.5	2.0	2.4	2.5	2.5	2.5	3.1	3.8
Of which											
Private sector credit	-4.8	-4.3	-53.6	0.8	1.9	2.3	2.4	2.3	2.3	2.3	2.3
Credit to central government	-0.8	0.9	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
				(In percent of GDP)							
Public sector											
Primary central government balance	3.6	1.4	1.0	2.7	2.1	3.9	5.3	4.1	2.9	1.8	1.9
Overall central government balance	2.5	0.4	-0.4	0.6	-0.2	1.6	3.3	2.6	1.6	0.6	0.6
Revenue and grants	24.1	21.8	22.3	29.1	35.7	36.8	32.0	29.8	28.7	26.5	25.3
Of which: Grants	1.8	0.4	0.3	4.0	10.6	12.2	7.2	5.0	4.1	1.9	1.8
Expenditure and net lending 2/	21.6	21.4	22.7	28.6	36.0	35.1	28.5	26.9	27.0	25.7	24.2
Foreign financing	-0.1	-0.5	5.4	-1.1	-1.4	-1.5	-1.8	-1.7	-1.6	-1.5	-1.4
Domestic financing including arrears	-3.1	-0.6	-5.4	5.5	10.0	7.7	7.3	6.5	5.8	5.7	5.2
Total public debt (end-of-period)	26.4	24.2	59.1	65.8	62.4	55.8	49.2	43.8	39.8	36.9	34.0
External	20.0	19.1	24.2	26.1	23.2	19.8	16.9	14.3	11.9	9.7	9.7
Domestic	6.4	5.1	34.8	39.7	39.2	35.9	32.3	29.5	27.9	27.3	26.3
				(Annual percentage change)							
External sector											
Exports of goods and nonfactor services	n.a.	8.8	-1.8	-2.6	4.5	4.2	3.7	3.7	3.6	3.5	3.5
Imports of goods and nonfactor services	n.a.	10.0	-1.0	-11.5	14.6	2.9	5.4	4.6	4.7	4.9	4.9
				(In percent of GDP)							
External current account balance	-24.0	-26.9	-27.0	-21.1	-28.9	-26.4	-27.3	-27.5	-27.9	-28.6	-29.2
Trade balance	52.6	58.8	57.2	57.8	65.4	60.9	61.1	60.8	60.7	60.7	60.7
Services, incomes and transfers	22.1	23.0	23.4	28.7	28.6	27.1	26.5	26.2	25.8	25.4	24.9
Of which:											
Travel (net)	47.4	44.5	47.2	54.6	54.2	52.4	51.7	51.1	50.5	49.8	49.2
Capital and financial account	14.7	14.1	6.5	21.1	28.9	26.4	27.3	27.5	27.9	32.3	33.3
Of which:											
Foreign direct investment	-28.0	-20.7	-19.4	-22.3	-21.7	-20.6	-19.9	-19.2	-18.6	-18.0	-17.3
Memorandum Item:											
GDP at market prices, current prices (in EC$ mn)	840.5	892.4	856.2	759.2	800.6	865.2	911.2	957.4	1006.0	1056.9	1110.5

Sources: Authorities; and Fund staff estimates and projections.

[1/] Estimates are for the year 2017, except otherwise noted.

[2/] Includes bank resolution transfers, all above the line for 2016.

Montserrat

1. Preliminary indicators point to a moderate recovery in economic growth after a contraction in 2017. GDP fell by 2.8 percent in 2017 reflecting the weak performance of tourism, agriculture, and construction, but the banking sector showed signs of recovery with credit to the private sector increasing by 1.3 percent. Tourism inflows picked up in the first half of 2018 and growth is projected to reach 2.4 percent in 2018. The recovery in tourism relates to renewed interest in Montserrat's attractions, including the volcano and the 'Pompeii-like' city of Plymouth. The fiscal position improved greatly in 2017 after a grant was secured from the UK and public debt remains very low at 6.6 percent of GDP. The fiscal and growth outlook, however, are subject to a large uncertainty owing to the impact that Brexit may have on the steady flow of UK grants. The current account deficit, which reached 43.9 percent of GDP in 2017, is expected to decline gradually.

2. The medium-term growth outlook is contingent on the financing of key new infrastructure and the completion of on-going government projects. Growth is projected to average about 2.2 percent of GDP over the medium term. However, this is predicated on enhancing connectivity by: (i) implementing the planned Little Bay port development and expanding the currently limited facilities and their capacity to absorb larger tourist flows; (ii) broadening airlift options; (iii) further promoting Montserrat's tourism; and (iv) adopting a phased approach to improving the physical and administrative access to areas in the Exclusion Zone.[1] Social programs to improve health and education, combined with capital projects to enhance energy independence, are also critical. Efforts should continue to expand access to social housing, upgrade health and educational infrastructures, and improve social and human development. In addition, the authorities should continue implementing key infrastructure projects to upgrade roads and bridges, electricity and water distribution, and waste management systems. Continued assistance from the UK government, which finances about 60-70 percent of total expenditures, is key for the successful realization of these projects.

3. The authorities target total independence from fossil fuels by 2020. The authorities aim to exploit favorable conditions for solar, wind, and geothermal energy production, which would reduce the island's exposure to volatile oil prices and lower high energy costs. There have also been several projects aimed at improving water and electricity networks. There is high interest in expanding the geothermal energy exploration. Combined with easier access to the island by tourism, this would significantly reduce the costs of doing business.

[1] In July 1995, Montserrat's Soufrière Hills volcano, dormant for centuries, erupted and buried the island's capital, Plymouth, destroyed its airport and docking facilities, and rendered the southern part of the island, now termed the "Exclusion zone," uninhabitable and not safe for travel.

Annex Table 2. Montserrat: Selected Indicators, 2014-24

I. Social and Demographic Indicators 1/

Population (thousands, estimate)	5.3	Gini coefficient	0.3
Average life expectancy at birth (years)	73.2	GDP per capita (US$), estimate	11,389
Literacy rate (percent of population)	97.0	GDP at market prices (US$ mln)	60.0
Infant mortality rate (deaths / 1000 live births)	15.8	Share in regional GDP (percent)	0.8

II. Economic and Financial Indicators

					Proj.						
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
	(Annual percentage change)										
National income and prices											
Real GDP	2.2	-1.9	0.5	-2.8	2.4	2.2	2.2	2.2	2.2	2.2	2.2
GDP deflator	-0.3	-1.1	-0.2	1.2	0.6	1.2	1.7	2.0	2.0	2.0	2.0
Consumer prices, average	-0.3	-1.1	-0.2	1.2	0.6	1.2	1.7	2.0	2.0	2.0	2.0
Consumer prices, end-period	-1.0	-0.1	-1.3	1.6	0.6	1.3	1.7	2.0	2.0	2.0	2.0
Monetary sector											
Broad money (M2)	11.1	2.4	1.0	-1.9	3.0	3.5	3.9	4.2	4.2	4.2	4.2
	(Annual change, in percent of M2 at the beginning of the year)										
Net foreign assets	8.4	13.6	-4.2	-5.8	-2.6	-0.2	3.3	3.3	3.3	3.4	3.5
Net domestic assets	2.7	-11.2	5.2	4.0	5.4	3.7	0.7	0.9	0.9	0.8	0.8
Of which:											
Private sector credit	0.1	1.5	3.9	1.3	1.7	1.7	1.8	1.9	1.9	2.0	2.0
	(In percent of GDP)										
Public sector											
Primary central government balance (including natural disaster costs)	-6.1	19.5	-0.4	32.4	-5.6	-4.4	0.1	0.0	0.0	0.1	0.2
Overall central government balance (including natural disaster costs)	-6.2	19.5	-0.4	32.4	-5.6	-4.4	0.0	-0.1	-0.1	0.0	0.1
Revenue and grants	94.4	113.5	79.3	111.1	92.8	87.4	83.1	80.8	77.1	77.1	77.4
Of which: Grants	65.9	85.1	51.6	82.1	64.6	57.8	53.0	50.2	45.9	44.0	42.3
Expenditure and net lending	100.6	94.0	79.7	78.7	98.5	90.5	81.8	79.6	75.9	75.7	75.8
Foreign financing	-0.1	2.0	0.0	1.4	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Domestic financing including arrears	6.2	-21.5	0.4	-33.8	5.7	3.2	-1.2	-1.1	-1.1	-1.3	-0.5
Central government current account balance	-1.7	14.9	4.2	2.4	0.4	1.5	1.3	1.2	1.2	1.4	1.6
Total public debt (end-of-period)	4.3	6.0	5.3	6.6	6.1	9.9	4.9	4.5	4.0	3.4	3.8
	(Annual percentage change)										
External sector											
Exports of goods and nonfactor services	n.a.	-0.1	3.6	4.6	3.3	5.4	6.1	6.4	6.5	6.5	6.5
Imports of goods and nonfactor services	n.a.	3.9	-5.6	35.6	-2.1	-6.1	1.2	1.5	0.9	1.5	1.6
	(In percent of GDP)										
External current account balance	-21.0	-9.9	-21.4	-43.9	-40.1	-31.3	-30.3	-29.0	-27.2	-25.9	-24.8
Trade balance	-56.2	-50.9	-43.6	-78.2	-75.6	-64.9	-62.4	-60.0	-56.8	-54.3	-52.1
Services, incomes and transfers	35.2	41.0	22.2	34.3	35.4	33.6	32.1	31.0	29.7	28.4	27.3
Of which:											
Travel (net)	14.6	14.6	14.2	15.6	15.9	16.2	16.5	16.8	17.2	17.5	17.9
Capital and financial account	20.6	15.7	23.1	43.9	40.1	31.3	30.3	29.0	27.2	25.9	24.8
Of which:											
Foreign direct investment	8.6	8.3	2.7	2.9	2.7	2.7	2.6	2.6	2.6	2.6	2.6
Memorandum item:											
GDP at market prices, current prices (in EC$ mn)	159.2	165.7	169.7	161.9	166.8	172.6	179.3	186.9	194.8	203.0	211.6

Sources: Authorities; ECCB; and Fund staff estimates and projections.
1/ Estimates are for the year 2017, except where noted.

INTERNATIONAL MONETARY FUND

EASTERN CARIBBEAN CURRENCY UNION

STAFF REPORT FOR THE 2018 DISCUSSION ON COMMON POLICIES OF MEMBER COUNTRIES—INFORMATIONAL ANNEX

December 20, 2018

Prepared By

The Western Hemisphere Department
(In consultation with other departments)

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CARTAC: CAPACITY BUILDING IN THE ECCU ____ 2

RELATIONS WITH THE FUND

(As of November 30, 2018)

1. Membership Status: Not Applicable

2. Exchange Arrangement: The Eastern Caribbean Currency Union (ECCU) comprises six Fund members: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines; and two territories of the United Kingdom, Anguilla and Montserrat. The eight ECCU members have a common currency, monetary policy, and exchange system. The common currency, the Eastern Caribbean (EC) dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. The common central bank, the Eastern Caribbean Central Bank (ECCB), has operated like a quasi-currency board, maintaining foreign exchange backing of its currency and demand liabilities of close to 100 percent.

3. Safeguards assessment. The 2016 updated safeguards assessment found that the ECCB continues to maintain a governance framework that provides for independent oversight. Transparency in financial reporting has been maintained and the external audit mechanism is sound. As recommended by the assessment, the ECCB has restructured the internal audit and risk management functions to align them with leading international practices.

CARTAC: CAPACITY BUILDING IN THE ECCU

(As of November 30, 2018)

Highlights of CARTAC's TA and training to the ECCU countries in the various core areas are provided below.

1. In the area of tax administration, VAT implementation in ECCU countries is largely complete[1]. The tax program for the ECCU member countries continues to focus on: (i) organizational restructuring to include strengthening and establishing a large taxpayer operation, (ii) strategic management frameworks (SMF); (iii) capacity building in core functions (taxpayer service, audit, collections enforcement, data analysis and risk management), (iv) building of a robust program management (headquarters) function, (v) modernizing tax legislation, and (vi) strengthening IT systems.

[1] Dominica (March 2006), Antigua and Barbuda (January 2007), St. Vincent and the Grenadines (May 2007), Grenada (February 2010), St. Kitts and Nevis (November 2010), St. Lucia (October 2012). In Anguilla in 2012, CARTAC provided support with its preparations for the introduction of a Goods and Services Tax in 2014. The government is considering a broad-based GST/VAT, possibly to be implemented in two phases – Limited VAT in 2021 and full VAT in 2023/4.

2. Implementation of management of taxpayers through segmentation and the establishment of Large and Medium Taxpayers Units (LMTUs)/programs and Design, Planning and Monitoring Units (DPMUs) are progressing well in Antigua and Barbuda, Dominica, St. Lucia, St. Kitts and Nevis, Grenada, and St. Vincent and the Grenadines.

3. Several countries are furthering their tax reform agendas, strengthening their institutional and policy frameworks, and improving the ease of administration:

- Antigua and Barbuda organizational structure has been reviewed
- St. Lucia – the VAT threshold was increased to EC$400,000 effective on February 1, 2016 and the VAT standard rate was reduced to 12.5 percent in February 2017.
- Dominica – the VAT threshold was increased to EC$250,000 in September 2016.
- Grenada – has reformed its tax incentives regime and the supporting legislation is now fully implemented.
- St. Kitts and Nevis – CARTAC provided advice on implementing and managing a tax incentive regime.

4. Effective implementation of new or modernized legislation. St. Kitts and Nevis secured legislation that mandates the filing of VAT and CIT tax returns. Anguilla now has a modern Inland Revenue Department Act, which provides the legal framework for the functioning of the Comptroller's office and sets forth the Comptrollers powers to collect tax.

5. The standardized regional data analytics and cross-matching program has made significant progress. Given the significant capacity gaps in the region, this project aims to build analytical skills in the planning, monitoring and program design and audit units to improve data matching and data mining to strengthen the quality of compliance management programs. St. Kitts and Nevis, Dominica, St. Lucia, and Grenada, St. Vincent and the Grenadines have benefited from the program. The program was introduced to Antigua and Barbuda's audit unit. The delivery modality is now targeting a core nucleus of staff to achieve a higher level of competence to allow for institutional specialization in this area aligned with the program management agenda. The previous high-level sensitization program has strengthened participants previously limited skills in Excel, improved identification of errors and issues to be addressed to improve data quality, sharpened the identification of risks in core functional areas of registration, on-time filing and payments, and the accuracy of taxpayer reporting based on the results of data cross-matching, analysis of VAT financial data and introduction of industry benchmarking.

6. Progress on the implementation of the standardized regional approach to risk-based compliance improvement has been limited. This is due to the poor data quality and limitations in the capacity of administrations to exploit and analyze internal and external data. St. Kitts and Nevis, Dominica, St. Lucia, Grenada and St. Vincent and the Grenadines benefited from preliminary TA to

develop a risk-based compliance management framework. Work in this area is restarting as administrations become more competent in the manipulation and exploitation of available data to better inform the risk management process.

7. **Performance management has been strengthened through building capacity**/mentoring of officers in the planning and monitoring units in St. Lucia, Antigua and Barbuda, St. Kitts and Nevis and St. Vincent and the Grenadines.

8. **Strengthening information technology systems for business delivery is essential to support sustainable reforms.** The tax administration information technology (IT) system largely used in the ECCU countries, is receiving regional peer-to-peer support. Drawing on regional skills, IT enhancement support was provided to St. Lucia, Grenada and St. Vincent and the Grenadines delivering enhancements to SIGTAS. In relation to Montserrat, the property tax system was enhanced facilitating timely production of notices of assessments. St. Lucia and St. Vincent and the Grenadines benefitted from TA in strengthening IT operational, security procedures and business continuity plans.

9. **In supporting regional integration, all ECCU member countries benefited from three regional workshops in FY2018/19:** (a) International Survey of Revenue Administration (ISORA) sensitization sessions led by FAD - the event outlined the most recent developments regarding the platform and access to review the data outcomes from the last round of survey data; (b) Effectively Managing Audit Programs – strengthening regional audit management capacity, ensuring that audits and other verification programs are effectively managed; and (c) an inter-regional seminar between CARTAC and PFTAC – all ECCU countries participated in this first of its kind event. Important inter- and intra-regional technical and operational issues were discussed, and regional and country presentations made show-casing issues and solutions for tax administration and policy matters. In addition, Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines are participating in a FAD-led initiative to establish a "Regional Tax Audit Team (RTAT)". Phase II of the program is underway; two workshops have been conducted. The third training will be sector specific (financial) and is planned for November 2018 in the Dominican Republic. Following on this training, the program will shift into implementation mode where actual audits will commence in multiple jurisdictions in respect of a selected sector potentially, the financial sector.

10. **Customs administration focuses on:** strengthening risk management and management to help ensure (i) leadership, management and governance; (ii) trade facilitation; and, (v) compliance. Regional initiatives include continued support to CARICOM in the harmonization of customs procedures.

11. **Risk Management is the cornerstone of an effective, modern customs administration.** It enables customs, by gathering and analyzing information from a variety of sources, to make sound decisions about intervening in the cargo clearance process. TA has been provided to Grenada, Anguilla, Dominica and St. Kitts and Nevis, St. Vincent and the Grenadines and Anguilla, and in each a framework has been prepared to identify, categorize and prioritize risks, and to propose risk treatments to address those risks. This has been further developed in these administrations to create sound systems to identify compliant traders and facilitate them.

12. TA, including advice, mentoring and training on post clearance audit (PCA), was delivered to St. Vincent and the Grenadines and Dominica. Approximately 20 officers received training, and as a result of this assistance, customs in these member countries now have the capacity to initiate significant PCA programs, and to strengthen both compliance and trade facilitation. Together with risk management, PCA has been an area where CARTAC has provided significant amounts of TA since FY14 – to Antigua and Barbuda, Dominica, and St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines.

13. TA has been provided to Grenada to strengthen training capacity. Significant TA has been provided to develop training modules in core customs skills for new and recent entrants to customs and to prepare a cadre of trainers. This will ensure high quality and consistent service to importers.

14. TA has been provided to Anguilla to prepare for the implementation of the Interim Goods Tax (IGT). This tax is planned to come into operation in January 2019 and will be levied initially on imported goods. TA has been provided to prepare a detailed prioritized action plan for the customs aspects of the new tax. In collaboration with FAD TP, TA has been provided to help extract customs data to assist in revenue modelling exercises for the new tax.

15. With a view to assessing the progress in public financial management reform, CARTAC has undertaken a comparative review of PFM practices in ECCU member countries against overall characteristics of a "core PFM" framework as defined in the IMF Good Practice Note (GPN) on 'Sequencing PFM Reform' (Diamond, 2013).[2] This analysis has produced a number of interesting findings regarding the standard of PFM across the ECCU region, and in turn informed allocation of CARTAC resources.

16. New PEFA assessments completed in Grenada and Dominica in 2016 and in St Lucia in 2017 will add to this information base. As a follow-up to each PEFA assessment CARTAC works closely with the assessed countries to develop PFM Action Plans to improve those weaknesses highlighted in the PEFA assessments.

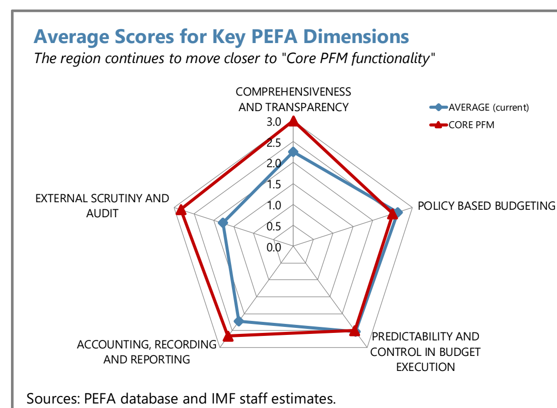
17. Implementation of a modern and consistent PFM legal framework across the ECCU is progressing. Antigua and Barbuda (implemented by IMF Headquarters with European Union funding), St. Lucia (under the Financial Management in the Caribbean program) Anguilla and Dominica have final draft legislation for legislative consideration. In September a FAD led TA Mission

[2] Analysis was derived from the PEFA assessments conducted from 2013-2016 in Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat and St. Kitts and Nevis. Dominica and St. Kitts assessments while finalized were yet to be peer reviewed. As defined in the IMF Good Practice Note (GPN) on 'Sequencing PFM Reform' (Diamond, 2013).

to Dominica on the establishment of a Vulnerability, Risk and Resilience Fund (VRRF) to mitigate financial shocks from severe weather events. CARTAC provided amendments to their Draft PFM Legislation governing the creation, operation and management of the VRRF Fund. Montserrat and St. Vincent and the Grenadines also have initial PFM drafts under review. Grenada passed revisions to its new PFM legislation and has adopted revised regulations (FMC) and a Fiscal Responsibility Act.[3]

Average Scores for Key PEFA Dimensions

The region continues to move closer to "Core PFM functionality"



Sources: PEFA database and IMF staff estimates.

18. Anguilla, Montserrat, and St. Vincent and the Grenadines received diagnostic assessments and training in the implementation of the CARTAC SOE/SB ownership manual (bringing to seven the number of countries implementing the manual). The countries undergoing this reform were bought together in a small workshop early in 2016 to share experiences and better practices in implementing the CARTAC reform – Grenada gave a compelling presentation on achievements to date and shared reporting templates and other material to aid the reform effort in the region. Another SOE mission is planned for St Lucia in the new year.

19. Regional budget preparation reform has been strengthened, with new countries adopting the strategic budgeting reform agenda. St. Lucia's budgets were prepared according to the strategic budget reform methodology and presented in the revised program budgeting format, including non-financial performance information. St. Vincent and the Grenadines completed their pilot exercise in 2016 and have now recently tabled their 2017 Estimates of Revenue and Expenditure containing ministerial priorities and output and outcome information for their programs. Budget preparation reform was further sustained through the development of comprehensive budget manuals. New manuals were developed for St. Lucia and St. Vincent and the Grenadines; bringing to nine the number of CARTAC countries with comprehensive budget preparation manuals. The budget manuals include a gender budgeting perspective.

20. Compliance with International Public Sector Accounting Standards (IPSAS) has made great progress. The annual IPSAS cash basis workshop was repeated during the year to evaluate compliance with the new exposure draft. As a result, Anguilla, and St. Kitts and Nevis were self-assessed as fully compliant, however work remains to improve the notes to cash basis financials, to provide a more comprehensive view as countries move to modified cash (prior to accrual basis). A mission to Dominica and Grenada to review their Treasury Functions and to improve their IPSAS cash management also took place.

[3] FMC – Financial Management in the Caribbean program financed by Canada and executed by the Fiscal Affairs Department (FAD).

21. During FY18, Grenada, Dominica St Vincent and the Grenadines and St Lucia were the recipients of technical assistance to assist the authorities to further develop their internal audit function for compliance with international standards. Furthermore, the annual regional workshop in FY17 covered risk management and the role of internal audit as an independent assurance for management.

22. CARTAC's technical assistance in the area of macroeconomics and programming analysis within the ECCU countries resumed in 2018 after the absence of a Macroeconomic Adviser for much of 2017. During the 9 months ending November 2018 three country missions were conducted in Anguilla, Dominica and St Vincent and the Grenadines. In the case of Anguilla, the focus was on assisting the Ministry of Finance in updating their Macro Fiscal Framework and in preparing their Debt Management Strategy as required by the British Government as a pre-condition for approval of their budget and to drawdown on a loan from the Caribbean Development Bank for post hurricane rehabilitation. The objectives of the mission were successfully achieved. In Dominica and St Vincent and the Grenadines the focus was on developing the capacity of the staff in the Ministry of Finance to forecasting the macro fiscal accounts and to updating the Macro Fiscal Framework (MTFF). While it may be too early to report on results, the training provided is expected to enhance the capacity of the staff in the Ministry of Finance to adopt a more structured approach to forecasting the macroeconomic accounts and to updating the MTFF. It is also expected that a more structured approach to updating the MTFF should result in a more systematized approach to budgeting and policy making. In addition to the country level technical assistance, two regional workshops were conducted which were attended by representatives from ECCU countries. The first workshop on Macroeconometric Forecasting was held in Jamaica in May 2018 in which representatives from Montserrat, St Lucia and Grenada attended and the second was in St Lucia in October 2018 on Inclusive Growth in which representatives from Antigua and Barbuda, Dominica, Montserrat, St Kitts and Nevis, St Lucia and St Vincent and the Grenadines attended.

23. CARTAC's TA in the area of financial stability revolves around: (i) stress-testing various aspects of the financial system; (ii) preparing financial soundness indicators (FSIs) for deposit-taking institutions, and financial stability and health indicators (FSHIs) for the non- deposit taking segments of the financial sector; (iii) developing macro-prudential and systemic risk indicators (MPIs and SRIs respectively) to bolster overall financial sector risk management and, (iv) assisting the ECCB in preparing the financial stability report for ECCU members.

24. Work in the area of banking sector stress testing dominated CARTAC's financial stability work plan during FY16. Considerable progress was made with the conduct of an extensive dynamic modeling and stress-testing exercise of seven domestic and four international banks spread across the ECCU region (Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, Montserrat, St. Lucia, and St. Vincent and the Grenadines). The major focus of the project was to help the ECCB assess the financial situation of key banks in the ECCU region, as well as to enhance the capacity of staff to conduct regular stress tests of the ECCU banking system. This multi-country TA project served as an important complement to a larger project being undertaken by the IMF, the World Bank and the Caribbean Development Bank (CDB). In addition, specialized internal seminars on

stress- testing and macro-prudential indicators were delivered for around 20 regulatory staff of the ECCB and for the Grenada Authority for the Regulation of Financial Institutions (GARFIN).

25. During FY17, work on banking sector stress testing and dynamic modeling was consolidated with further stress tests of the nine indigenous banks. CARTAC and MCM completed a scoping mission with the ECCB to assess financial stability needs in the ECCU region and to co-ordinate TA efforts. A roadmap of programs was delivered and outcomes to be achieved were compiled and agreed with the ECCB which include (a) risk monitoring (stress-testing the NBFIs, development of MPIs and SRIs and FHSIs for the non-banks), (b) development of a macroprudential policy framework (including legal mandate and toolkit), (c) financial crisis management planning at an ECCU-wide level, (d) consolidated supervision, (e) analysis of financial sector interconnectedness (f) quality assurance of onsite examinations (f) methodology for SIFIs in non-banks and (g) Basel Implementation. Some work also begun on stress testing non-bank financial institutions, starting with credit unions. TA on stress-testing methodologies and capabilities was provided to Grenada for the credit union sector.

26. In the area of building financial resilience (by developing effective crisis management plans and resolution strategies), work focused on: (i) training GARFIN staff on crisis management and resolution frameworks, and (ii) improving the capacity of regulators in all segments of the financial system on crisis prevention, preparedness/management, and resolution frameworks. CARTAC conducted training on financial crisis management for the regulatory staff of GARFIN and in conjunction with the Central Bank of Barbados, hosted a three-day Conference on the theme "Building Resilience to Financial Crises in the Caribbean: The Role of Crisis Management Policies, Metrics and Plans" in March 2016. This Conference brought together 74 stakeholders from national regulatory authorities, the regional regulatory associations and key international bodies (including the IMF, World Bank and the FSB) to discuss how the Caribbean region could best approach the design of institutional and operational frameworks to withstand financial sector and economy- wide disruptions. Drawing on new information presented at this conference, some ECCU members (Grenada and St. Vincent and the Grenadines) have approached CARTAC for technical assistance in strengthening their national financial sector crisis preparedness plans and resolution frameworks. Work in the medium term will focus on developing crisis management plans at a national level in the various ECCU territories which could serve as a pre-cursor to the ECCU-wide plan. In FY18, CARTAC assisted St. Vincent and the Grenadines in the development and implementation of its national and agency crisis management plan. Regarding resilience to natural disasters such as the passage of Maria, a category 5 hurricane which devastated Dominica during September 2017, a CARTAC mission was undertaken to assist authorities in developing a contingency plan to mitigate potential spillover effects from the hurricane on the financial sector over the medium-term.

27. During FY18, CARTAC provided ECCB with TA on upgrading its financial stability function, specifically in relation to developing MPIs and SRIs, and developing a macroprudential institutional and surveillance framework to cover the ECCU region. The recommended macroprudential institutional and surveillance framework was endorsed by the ECCB Board of Directors. A proposal based on the CARTAC TA is being finalized for presentation to the ECCU

Monetary Council to formalize the ECCU's financial stability institutional framework. The ECCB also prepared and published on its website the inaugural Financial Stability Report, which assessed systemic risks and vulnerabilities in the ECCU region and featured the MPIs and SRIs provided by CARTAC TA.

28. A comprehensive list of financial health and soundness indicators with accompanying methodologies was developed for the insurance sector regulators in the ECCU region. Follow up TA on developing stress-testing frameworks for ECCU insurance regulators were provided to Antigua and Barbuda, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and to FSU staff in the ECCB in FY19. Further to the training and action plan provided by CARTAC, Antigua and Barbuda and St. Vincent and the Grenadines have developed Reinsurance Guidelines for feedback from their respective industries. A similar stress testing TA program will be provided in FY20 for the remaining insurance sector regulators in the ECCU region.

29. A set of FHSIs with accompanying methodologies were developed for credit union sector regulators in Anguilla, Antigua and Barbuda, Dominica, St. Kitts and Nevis and for FSU staff in ECCB**.** A similar stress testing TA program will be provided in FY20 for other credit union sector regulators in the ECCU region.

30. Dominica received CARTAC TA on credit union stress testing which has already led positive outcomes. A 'bottom-up' stress testing program has been implemented by the Regulator through the issue of Stress Test Guidelines to the credit union sector. Dominica's Financial Services Unit has since established an annual credit union sector meeting to review and discuss results from yearly sector-wide stress testing exercises. Reporting forms were amended in line with CARTAC TA recommendations to allow for reporting on loan and deposit concentrations to facilitate the prescribed stress testing exercises.

31. In financial sector supervision, CARTAC reviewed and provided feedback on the ECCB's draft Basel II/III implementation plan for the Eastern Caribbean Currency Union (ECCU) and assisted with the development of time-bounded action plans and milestones to achieve Basel II/III implementation objectives. The ECCB has established a Basel II/III implementation team and has commenced consultation with institutions that will be subject to Basel II/III reporting.

32. Provides training and technical assistance on the implementation of risk-based supervision across bank and non-bank financial institutions in member countries. During FY 18, CARTAC provided TA to the following countries: Grenada - Risk-Focused Examination of Retail Lending at Credit Unions; St. Vincent and the Grenadines, and Grenada - Review of Reinsurance Treaties, and Actuarial Reports of Insurance Companies; Dominica - Supervisory intervention plan for Credit Union and insurance sectors; and Antigua and Barbuda – guidelines on bottom-up stress testing for credit unions. CARTAC also provided follow-up TA to facilitate improvements in processes and practices for conducting onsite and offsite supervision in a risk-based supervisory environment in St. Vincent and the Grenadines, Grenada, Antigua and Barbuda, and Anguilla.

33. Provided TA to facilitate review of the draft legislation on Securities and Investment Funds. Both legislation will replace the current Securities Act and the legislation governing collective investment schemes enacted in the ECCU member territories in 2001. The draft Bill was submitted to the IOSCO for preliminary assessment of the ECSRC eligibility for membership. The draft Bill has since been finalized for public consultation.

34. Provided TA to address deficiencies in the ECCU's Uniform Insurance and Pension Bill in an effort towards the establishment of a Single Market for Insurance and Pension (SIPM). Recommendations resulting from the review have been finalized, and in process of being incorporated into the Uniform Bill with a view to establish a uniform Insurance and Pension legislation in the ECCU that align with international regulatory and market conduct standards.

35. Continued efforts at capacity building through regional workshops in FY17 and FY18. CARTAC facilitated both bank and non-bank supervisors from member countries of the ECCU to attend several regional workshops. These workshops focused on strengthening regulatory and supervisory oversight across both the bank and the non-bank sectors (pension, insurance, securities, and credit unions), systemic risk surveillance, implementation of IFRS 9, risk-based capital framework for insurance companies, consolidated supervision, digital currencies and potential regulatory response.

36. Provided TA to Dominica on developing supervisory intervention plans for the credit union and insurance. The Financial Stability and Financial Sector Supervision programs fielded a joint mission to Dominica in early 2018 to assess the resilience of some financial institutions in the aftermath of hurricane Maria during the latter half of 2017.

37. During 2017-18 the CARTAC program on economic and financial statistics concentrated on improving external sector, national accounts and prices statistics in ECCU countries. Good progress is being made by a few countries in expanding the range and improving the quality of their *annual national accounts*. Comprehensive reviews of the national accounts concepts, data sources, compilation and dissemination methods were conducted for Dominica and Montserrat**,** and 5-year action plans to rebase the GDP and expand the national accounts have been prepared. In addition, progress has been made in St. Lucia in compiling the SUT for 2016.

- Increased efforts are being made by countries to develop or improve *quarterly national accounts* estimates. Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines have commenced disseminating quarterly GDP by economic activity (QGDP-P) estimates. In addition, TA was provided to Antigua and Barbuda to build staff capacity and to commence development of the quarterly GDP-P compilation worksheets.

- Progress is also being made by countries to improve prices statistics and inflation management. For St. Kitts and Nevis, the data collection and compilation methodologies for producing the PPI and export and import price indices have been developed, and further advice has been provided on rebasing the CPI.

38. CARTAC is continuing to coordinate its activities with other TA providers in the region, including the Project for the Regional Advancement of Statistics in the Caribbean (PRASC) being delivered by Statistics Canada on improving data sources and compiling national accounts and prices statistics and the assistance provided by the ECCB in reviewing the annual national accounts of its member states.

39. The CARTAC work program in external sector statistics (ESS) focuses on supporting the improvement of methodologies and compilation practices to better measure external transactions (balance of payments - BOP) and positions (international investment position – IIP), through the adoption of good practices and the latest internationally accepted guidelines prescribed in the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*.

40. Since July 2017, the ECCB disseminates comprehensive annual BOP and IIP data for the eight ECCU members and the ECCU, following the *BPM6* format. Data are available on the ECCB's website and re-disseminated in the IMF's *Balance of Payments Statistics Yearbook (BOPSY)* and *International Financial Statistics (IFS)*, as the ECCB has resumed data reporting to STA in October 2017. In coordination with the debt offices of the ministries of finances, the ECCB has posted aggregated annual data on outstanding central government and public sector external debt on its website. CARTAC continues assisting ECCU members in strengthening compilation frameworks. Responding to data needs for tourism-oriented economies, the CARTAC TA has assisted in improving capacity within the national statistics offices (NSOs) and the tourism authorities to implement sound visitor expenditure surveys (VES).[4] CARTAC is also assisting in enhancing the quality of prioritized balance of payments components with the incorporation of a wider variety of sources, including administrative data. As data quality is being progressively improved, CARTAC TA missions have also encouraged authorities to increase the information available to users.

41. Visitor and student expenditure data have improved in the ECCU economies. Estimates of visitor expenditure, included as travel services exports in the balance of payments, are now based on recent surveys of visitors. The correct inclusion of tuition fees and other education-related travel services provided by offshore universities (OUs) to nonresident students as part of the ECCU exports is among the most significant methodological changes introduced in the updated methodology. A specific ESS survey form of OUs has been implemented and administrative data used as complementary sources. In the case of Antigua and Barbuda, over 450 students were also surveyed in collaboration with the former office of the IMF's Resident Representative for the ECCU region.

[4] The revision of travel services was the main driver of the improvement of the current account in the BPM6 revised data. Travel services were underestimated in the former BOP statistics.

Statement by Louise Levonian, Executive Director, Anne Marie McKiernan, Alternate Executive Director, and Mike Sylvester, Advisor
January 28, 2019

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.