EASTERN CARIBBEAN CURRENCY UNION

December 20, 2018

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

Prepared By

The Western Hemisphere Department
(In consultation with other departments)

CONTENTS

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.

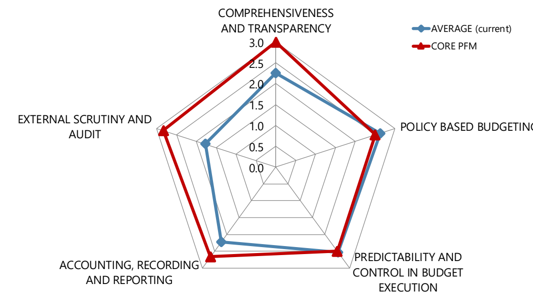
17. Implementation of a modern and consistent PFM legal framework across the ECCU is progressing. Antigua and Barbuda (implemented by IMF Headquarters with European Union funding), St. Lucia (under the Financial Management in the Caribbean program) Anguilla and Dominica have final draft legislation for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