Statement by Ms. Levonian and Mr. Sylvester on Eastern Caribbean Currency Union
February 3, 2020

Our Eastern Caribbean Currency Union (ECCU) authorities are committed to building strong, resilient, and inclusive economies. In this context, they thank staff for the constructive engagement during the 2019 regional consultations on common policies and welcome the insightful Report and Selected Issues Paper (SIP). Despite growing risks and persistent challenges, our authorities continue to advance their economic development agenda. They remain committed to pursuing sound macroeconomic policies and reforms at the national and regional levels and look forward to the continued engagement of the Fund and other development partners. They broadly share staff's appraisal and many of their recommendations. In this Buff, they wish to emphasize ongoing national and regional efforts aimed at addressing the challenges identified in the Report, and to respond to some of the issues raised by staff.

Leveraging Regional Integration

Our authorities welcome the focus of the 2019 regional consultation on policies to advance regional integration. As a grouping of small island developing states, the ECCU region is beset by multiple challenges and risks, some of which could be mitigated by taking regional approaches. Our authorities thank staff for their analytical work and policy recommendations on fiscal and financial integration and solidifying the monetary union. They see some merit in greater fiscal integration, for instance, on CBI program due diligence processes, but note some challenges to harmonize tax incentives among sovereign states facing different domestic circumstances. They also see the potential merits of building buffers, including through a regional stabilization fund, but point to the difficult tradeoff with limited fiscal space and insufficient external support. That said, some of our authorities have moved ahead with the establishment of national savings funds. Furthermore, the Eastern Caribbean Central Bank (ECCB) has a small regional "rainy day" fund and would welcome staff's support on how this fund could be enhanced, including through external donor support. Regarding greater financial integration, our authorities are already moving forward with efforts to strengthen the NPL resolution and crisis management frameworks, as well as plans to introduce a deposit insurance (DI) scheme. On solidifying the monetary union, our authorities have made significant progress in modernizing the payment system by introducing the Eastern Caribbean Automated Clearing House (ECACH) and the Electronic Funds Transfer (EFT) systems and are moving ahead with plans to introduce a digital version of the EC dollar.

Our authorities strongly believe that a digital version of the EC dollar (DXCD) will help support the economic transformation of the ECCU. A DXCD will support the modernization of the payment system by making it more resilient and efficient through reducing the heavy reliance on the use of cash and cheques, improving the speed and decreasing the cost of transactions, and minimizing the social costs of hard currency. Consistent with this strategic vision for the ECCU, the ECCB launched a DXCD pilot in March of 2019 to inform the development and implementation of what will essentially be the world's first central bank digital currency. Our authorities are approaching this reform in a deliberate manner with due consideration to key safeguards, including cybersecurity and AML/CFT requirements. Our authorities welcome staff's useful SIP, which reinforces many of the important design elements currently under consideration by the ECCB and look forward to the Fund's continued support in leveraging technology and innovation in the region.

Real Sector Developments and Policies

Our authorities welcome the strong rebound in growth and the broadly favorable outlook. After growing by less than 1 percent in 2017, due largely to the devastating impact of Hurricanes Irma and Maria, real GDP grew strongly by 3.9 percent and 3.2 percent in 2018 and 2019, respectively, driven by a strong recovery in tourism and construction. On medium-term growth, our authorities are slightly more optimistic than staff and expect growth to hover around 3.5 percent but concur that the outlook is subject to considerable downside risks, not least from natural disasters, a global economic slowdown, a further loss of CBRs, and cyber threats.

Our authorities are strongly committed to building resilience to natural disasters and climate change. The increasing frequency and intensity of natural disasters is a major source of vulnerability to growth and fiscal health in the ECCU. Our authorities face a vicious cycle of natural disasters, followed by low growth and a buildup of indebtedness and debt distress. In this regard, our authorities will continue to prioritize reforms and policies to support resilience building, including participating in the Caribbean Catastrophe Risk Insurance Facility (CCRIF SPC), adopting appropriate building standards, and investing in climate resilient infrastructure. They greatly appreciate the Fund's increased focus in recent years in supporting countries vulnerable to catastrophic natural disasters to build ex ante resilience, including the current efforts in Grenada and Dominica with disaster resilience strategies (DRSs). They call on the Fund and other development partners to increase access to reliable and affordable financial and technical support in this area, including through efforts to promote the widespread uptake of disaster-linked clauses in debt instruments.

Fiscal and Debt Developments and Policies

Our authorities are committed to the prudent management of public finances to support fiscal and debt sustainability. They note positively the improvement in the overall fiscal deficit in 2019, following the spike in 2018, largely due to disaster-related spending. They further take note of the positive and downward movement of the public debt ratio. While acknowledging these positive developments, our authorities remain mindful of the significant risks to public finances and the absolute necessity to pursue prudent fiscal and debt management policies. The ECCB will continue to support member countries in developing strong fiscal and debt frameworks, including medium-term fiscal frameworks and debt management strategies. Our authorities note staff's concerns regarding some member countries' progress towards reaching the 60 percent of GDP debt target by the 2030 timeline and reaffirm their commitment to meeting this target, including closely monitoring progress and taking actions, as appropriate. However, our authorities continue to stress the difficult challenge to meet critical investments to support growth and poverty reduction and to build fiscal buffers to support resilience, while keeping debt levels down, with little or no fiscal space and external support. They call on the international community to support those efforts, including through increasing access to grant financing.

The ECCB will continue its effort to promote fiscal discipline across the ECCU, including through the adoption of rules-based fiscal resilience frameworks. In addition to Grenada and Anguilla, which have fiscal rules in place, more of our authorities are looking to advance elements of their own fiscal frameworks. While all our authorities have committed to fiscal prudence, it is unlikely that they will agree to uniform fiscal frameworks. The ECCB encourages staff to explore with our authorities a set of common minimum fiscal anchors that could be adopted.

Financial Sector Developments and Policies

Financial sector conditions in the ECCU remained stable in the past year, but vulnerabilities persist. Our authorities welcome staff's assessment that banking sector liquidity and capital ratios have remained strong and the level of non-performing loans (NPLs) has continued to decline. However, the NPL ratio is still above the regulatory standard and weak credit growth persists. Our authorities are acutely aware that sustained efforts are needed to address remaining financial sector weaknesses, mitigate risks, and increase the sector's contribution to growth. They broadly share staff's assessment of the key risks and challenges, including the exit of global banks, a rapidly growing credit union sector, and ongoing pressures related to further losses of correspondent banking relationships (CBRs). They believe that their current efforts will continue to deliver important results for financial sector strengthening.

Our authorities remain committed to advancing their reform agenda to boost financial sector stability and build resilience. The ECCB intends to build on the progress already made in many areas to strengthen financial oversight and operations. They will continue to press ahead with reforms to, inter alia, accelerate NPL resolution, harmonize regulation for non-banks, develop systemic risk monitoring, and enhance the AML/CFT framework. Our authorities note staff's concerns regarding the slow pace of financial sector reforms due in part to delays in the passing of legislation by individual countries. While the ECCB authorities agree that these reforms should move faster, they believe that staff need to be more pragmatic in assessing the pace of regional reforms giving due consideration to different country circumstances. Our authorities do not support phasing out the minimum savings rate (MSR) at this time and will consider its removal in conjunction with other reforms, including the introduction of deposit insurance.

Our authorities continue to be concerned about the possibility of further CBR losses. They are grateful to the Fund and other international partners for their efforts in helping to find concrete solutions to this problem. While CBR losses in the ECCU have stabilized somewhat, the possibility of further withdrawals remains a major concern. Our authorities urge the Fund and others to remain actively engaged on this burning issue in support of member countries' efforts. The ECCB will press ahead with efforts to harmonize and strengthen AML/CFT supervision at the regional level.

Boosting Growth and Inclusion

Our authorities will continue to implement structural reforms to promote sustainable and inclusive growth. They see economic growth as a critical factor in helping to address many of their challenges, including high levels of poverty, inequality, and unemployment. Accordingly, our authorities will continue to pursue reforms aimed at removing obstacles to higher growth and employment levels, and poverty reduction by focusing on improving the climate for doing business; diversifying the economic structure, including through investments in renewable energy; further developing the regional capital market; and addressing rigidities to labor market performance, including through education and training. Regional initiatives currently being implemented, such as the World Bank-supported Eastern Caribbean Partial Credit Guarantee Corporation, will support SMEs' development and employment generation. Our authorities concur with staff that technology, particularly Fintech, has the potential to boost economic growth. Our authorities are moving ahead with reforms to facilitate the adoption of technology and promote innovation, both at the national and regional levels, including through investment in a high-speed fiber-optic broadband network and e-government platforms. Our authorities look to the Fund for technical assistance to support Fintech development in the region.

Engagement with the Fund and other Development Partners

Our authorities highly value the continuing strong relationship with the Fund and other development partners. They are very grateful for the sound policy advice, the considerable amount of technical assistance (TA) through the Caribbean Regional Technical Assistance Centre (CARTAC) and other mediums, and the various technical exchanges, including through programs such as the Garfield T. Riley Seminar Series, an initiative of the Research Department of the ECCB. Our authorities look forward to the continued strong support of the Fund and other development partners in helping the region address its many development challenges.

Conclusion

While growth has rebounded strongly and the near-term outlook remains favorable, the economic landscape in the ECCU region remains fragile in the face of daunting risks and challenges. Our authorities are acutely aware of the difficult road ahead and remain committed to confronting the many challenges, with the support of its partners. 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.