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IMF Executive Board Concludes 2017 Discussion on Common Policies of Member Countries of the Eastern Caribbean Currency Union

On June 2, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the 2017 discussion on the common policies of the Eastern Caribbean Currency Union (ECCU) in the context of the Article IV consultations with member countries.[1]

Favorable external conditions continue to support economic recovery, but flat tourism receipts and falling revenues from citizenship programs have weakened growth. The fiscal position has deteriorated slightly and public debt remains high. Despite progress on financial sector reform, bank lending continues to decline while indigenous banks' profitability is adversely impacted by increasing costs to secure correspondent banking relationships. The short-term outlook is favorable and risks are broadly balanced, but strong structural policies are needed to address impediments to medium-term growth.

Executive Board Assessment[2]

Executive Directors welcomed the favorable short-term outlook, supported by solid tourism inflows, low oil prices, and steady foreign direct investment. Directors noted that while risks are broadly balanced, the ECCU is vulnerable to external shocks, policy slippages, and natural

[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.

[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.

disasters. With this background, Directors recommended implementation of stronger policies and structural reforms to address vulnerabilities, enhance resilience, and improve growth prospects.

Directors underscored the need to place public debt on a path consistent with the 2030 regional benchmark of 60 percent of GDP, while a few Directors called for a ceiling at this level. The adoption of credible fiscal frameworks, strengthened by fiscal responsibility legislation where appropriate, would help achieve the debt target. Directors stressed that sound management of the public sector wage bill is critical for fiscal consolidation. The decision by the Monetary Council of the central bank to discuss members' medium-term frameworks and interim fiscal targets is a useful step, but determined implementation will be key.

Directors emphasized the need to prepare for natural disasters and build resilience, including through investment in infrastructure and ex-ante financing arrangements which are fully integrated in macroeconomic frameworks. Revenues from Citizenship-by-Investment (CBI) programs, which should be used to reduce public debt where necessary, can also be directed to saving funds and to finance appropriate investment plans. Directors suggested that a regional approach to CBI programs would help strengthen the integrity of these programs while reducing their costs.

While recognizing steps taken by the ECCB, Directors noted that weaknesses remain in the financial sector, with banks still burdened by high nonperforming loans. They highlighted the importance of enforcing prudential requirements based on a realistic assessments of banks' capital needs. Prompt activation of the Eastern Caribbean Asset Management Company would accelerate banks' disposal of their bad assets. Directors also encouraged early completion of key legislation, including a harmonized law on asset quality, a stronger regulatory framework for credit unions and insurance companies, and new insolvency legislation.

Directors suggested that the cost of securing correspondent banking relationships can be reduced through stronger AML/CFT legislation and supervision, bank consolidation, and improved communication. They also noted that removing the saving rate floor would improve the functioning of credit markets. Efficiency enhancements in the Regional Government Securities Market would help lower borrowing costs and improve financial intermediation.

Directors stressed that accelerating structural reforms is necessary to address high unemployment, raise competitiveness, and boost growth prospects. Priorities include reducing costs of doing business and speeding up the implementation of renewable energy projects. Directors noted that furthering regional integration would help achieve economies of scale and enhance competitiveness. Strengthening the link between wages and productivity would help address structural unemployment.

Directors welcomed recent improvements in the quality of statistics and data provision, and encouraged further progress to enhance the quality of surveillance and policy analysis.

Table 1. ECCU: Selected Economic and Financial Indicators, 2014–19 1/

	2014	2015	Prel. 2016	Proj. 2017	2018	2019
				(Annual percentage change)		
National income and prices						
Real GDP	3.2	2.6	2.0	2.4	2.3	2.2
GDP deflator	1.9	0.9	-1.0	1.9	1.7	1.9
Consumer prices, average	1.0	-0.8	-0.3	1.7	1.6	1.9
Monetary sector						
Liabilities to the private sector (M2)	8.2	4.1	0.8	2.1	2.8	4.2
Net foreign assets	42.5	31.7	13.3	7.4	6.1	5.6
Net domestic assets	-3.3	-9.5	-8.1	-2.7	-0.5	2.8
				(In percent of GDP)		
Public sector						
Primary central government balance	1.3	2.1	0.9	2.2	2.3	2.3
Overall central government balance	-1.5	-0.7	-1.9	-0.6	-0.6	-0.6
Domestic financing including arrears	-0.3	-0.8	2.2	0.9	0.6	0.7
Central government current account balance	0.7	0.8	-0.6	1.0	0.9	0.8
Total public debt (end-of-period) 1/	84.3	81.0	79.8	76.6	74.3	72.3
				(Annual percentage change)		
External sector						
Exports, f.o.b.	-3.3	0.5	-11.8	6.1	3.8	3.7
Imports, f.o.b.	1.0	-6.7	2.7	7.7	4.2	3.6
				(In percent of GDP)		
External current account balance	-13.6	-10.0	-11.9	-13.7	-13.9	-13.9
Trade balance	-31.8	-28.0	-29.2	-30.2	-30.3	-30.1
Services, incomes and transfers	18.2	18.0	17.3	16.5	16.4	16.2
Capital and financial accounts 2/	18.1	14.1	13.7	15.7	15.5	15.5
External public debt (end-of period)	45.8	43.1	42.7	40.2	38.4	36.9
End-year gross foreign reserves of the ECCB						
In millions of U.S. dollars	1,411	1,560	1,690	1,782	1,873	1,977
In months of current year imports of goods and services	5.4	6.2	6.5	6.4	6.5	6.6
In percent of broad money	25.3	26.9	28.9	29.9	30.6	30.9

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

1/ In Anguilla and Antigua, the baselines include banks resolution with important fiscal consolidation commitments that lower significantly the debt-to-GDP ratio over the projection horizon. Additionally, in Grenada, the debt restructuring has taken place with significant impact on the debt-to-GDP ratio.
2/ Includes errors and omissions.