

INTERNATIONAL MONETARY FUND



Staff Country Reports

Eastern Caribbean Currency Union: 2010 Discussion on Common Policies of Member Countries—Staff Report; Informational Annex, and the Public Information Notice on the Executive Board Discussion

This staff report on common policies of member countries of the Eastern Caribbean Currency Union (ECCU) was prepared by a staff team of the International Monetary Fund in the context of the periodic regional surveillance of the ECCU. The regional perspective of such discussions is intended to strengthen the bilateral discussions that the IMF holds with members in the region under Article IV of the IMF's Articles of Agreement. The following documents have been released and are included in this package:

- The staff report for the 2010 Discussion on Common Policies of Member Countries, prepared by a staff team of the IMF, following discussions that ended on August 27, 2010 with the officials of the ECCU on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 17, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- Informational Annex
- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its September 27, 2010 discussion of the staff report.

The document listed below will be separately released.

Selected Issues

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INTERNATIONAL MONETARY FUND

EASTERN CARIBBEAN CURRENCY UNION (ECCU)

Staff Report for the 2010 Discussion on Common Policies of Member Countries

Prepared by the Staff Representatives for the 2010 Discussion with the
Eastern Caribbean Currency Union

Approved by Rodrigo Valdés and Jan Kees Martijn

September 17, 2010

EXECUTIVE SUMMARY

Context. The ECCU has been hard hit by the global economic downturn and is faced with a protracted recovery. Reflecting a collapse in tourist arrivals and FDI-financed construction activity, real regional GDP contracted sharply in 2009 and growth is expected to remain subdued in 2010–11. Surging fiscal deficits, the lack of institutional arrangements for fiscal consolidation, unsustainable debt levels, and stress in the financial sector are threatening the underpinnings of the currency union and the currency board.

Key recommendations:

- **Fiscal policy.** The currency union needs to be supported by consistent fiscal policies across all member countries. Reducing high fiscal deficits and public debt levels are also critical for fostering growth. The authorities' decision to translate the current debt target of 60 percent of GDP by 2020 into annual primary surplus targets is an important step in the right direction, but the challenge will be to ensure implementation and compliance. Rationalizing public expenditure will have to be an important element in addressing fiscal weaknesses and improving the efficiency and effectiveness of public spending.
- **Financial sector.** Safeguarding financial system stability calls for crisis preparedness and prompt actions including a preemptive resolution of weak banks. On the failed insurance companies, while some progress has been made in the resolution of BAICO, the risk of fallout from CLICO calls for a more proactive and a continued coordinated regional approach. Regulation and supervision of the nonbank financial sector also needs to be stepped up, including in the near term, by making operational the SRUs and strengthening the information exchange and collaboration between the ECCB, SRUs and other regulators.
- **External competitiveness.** While the REER appears broadly in line with current fundamentals, the necessary fiscal adjustments will imply equilibrium REER depreciation in the near term. In light of the peg, this implies adjustments in relative prices and calls for constraints in real wage growth or even a reduction in nominal wages.

Discussions. The 2010 Common Policies discussions took place during June–August 2010 and the mission comprised A. Schipke (Head), Y. Wong, the ECCU regional resident representative W. Samuel, and M. Mrkaic (all WHD). J. Rolle (OED) participated as well. The mission held policy discussions with all eight ECCU members of the ECCU (Fund-member countries Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines; and the two U.K. territories, Anguilla and Montserrat) and the ECCB. Also, the key common policy issues were discussed at the first ECCU/OECS-IMF meeting held on June 24–25 in St. Kitts, which brought together the prime ministers, ministers of finance, financial secretaries, the ECCB governor, Executive Director T. Hockin (OED), DMD Mr. Portugal, and staff (FAD, MCM, and WHD).

Fund Relations. To mitigate the impact of the global financial crisis and idiosyncratic shocks, the Executive Board approved financing requests to all ECCU Fund members in 2009–10. These include the RAC-ESFs for Dominica (40 percent of quota), St. Lucia (45 percent of quota), and St. Vincent and the Grenadines (45 percent of quota); ENDA for St. Kitts and Nevis (25 percent of quota); ECF augmentation (37.5 percent of quota) and a successor three-year ECF (75 percent of quota) to Grenada; as well as a three-year SBA (600 percent of quota) for Antigua and Barbuda.

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ACRONYMS

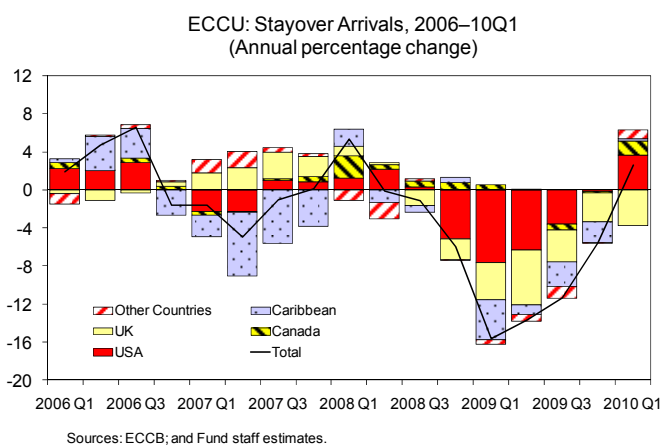
| | |
|-----------|------------------------------------------------------------|
| AML/CFT | Anti-Money Laundering/Combating the Financing of Terrorism |
| CARICOM | Caribbean Community |
| CARIFORUM | CARICOM countries and the Dominican Republic |
| CARTAC | Caribbean Regional Technical Assistance Centre |
| CBA | Currency Board Arrangement |
| CDB | Caribbean Development Bank |
| CDF | Caribbean Development Fund |
| CFATF | Caribbean Financial Action Task Force |
| CIDA | Canadian International Development Agency |
| CSME | CARICOM Single Market and Economy |
| CTO | Caribbean Tourism Organization |
| EC | Eastern Caribbean |
| ECCB | Eastern Caribbean Central Bank |
| ECCU | Eastern Caribbean Currency Union |
| ECF | Extended Credit Facility |
| ECSE | Eastern Caribbean Securities Exchange |
| ECSRC | Eastern Caribbean Securities Regulatory Commission |
| ENDA | Emergency Natural Assistance for Natural Disaster |
| ESF-RAC | Exogenous Shocks Facility (Rapid Access Component) |
| EU | European Union |
| FAD | Fiscal Affairs Department |
| FDI | Foreign Direct Investment |
| FSAP | Financial Sector Assessment Program |
| LEG | Legal Department |
| LOLR | Lender of Last Resort |
| MCM | Money and Capital Markets Department |
| NBFI | Nonbank Financial Institution |
| NPL | Nonperforming Loan |
| OECD | Organization for Economic Cooperation and Development |
| OECS | Organization of Eastern Caribbean States |
| PRGF | Poverty Reduction and Growth Facility |
| PSIP | Public Sector Investment Program |
| ROC | Regional Oversight Committee |
| ROSC | Report on the Observance of Standards and Codes |
| REER | Real Effective Exchange Rate |
| RGSM | Regional Government Securities Market |
| SBA | Stand-By Arrangement |
| SRU | Single Regulatory Unit |
| STA | Statistics Department |
| VAT | Value Added Tax |
| WHD | Western Hemisphere Department |
| WTO | World Trade Organization |

I. CONTEXT AND RECENT DEVELOPMENTS

1. **The ECCU is at crossroads as vulnerabilities have intensified.** The ECCU consists of eight small, open, tourism-dependent island economies which share a common currency pegged to the U.S. dollar (Figures 1 and 2).¹ The regional currency board arrangement, which continues to be an appropriate exchange rate regime, has provided a strong anchor for macroeconomic stability, and facilitated financial system development. However, the global financial and economic crisis has brought to the fore pockets of significant weaknesses. Surging fiscal deficits, the lack of institutional arrangements for fiscal consolidation, unsustainable debt levels, and stress in the financial sector are threatening the very underpinnings of the currency union and the currency board. The authorities have responded on a number of fronts, but remedial action has been uneven and needs to be intensified in a number of areas and countries.

2. **The global recession has severely affected economic activity in the ECCU region through the collapse of tourism and FDI-financed construction, the two pillars of economic growth in recent years.** Real regional GDP contracted by about 6.2 percent in 2009, after growing 1.9 percent in 2008 and an average of 3.2 percent during 2000–07.

The contraction of 2009 was considerably deeper and more protracted than expected at the time of the previous Common Policies discussions. Stayover tourist arrivals fell by about 12 percent in 2009, reflecting the impact of very weak tourism demand from the key tourism markets in North America and Europe. While a recovery is on its way, it remains weak with stayover tourist arrivals growing by 2.6 percent yoy in 2010 Q1. Low tourism receipts, financing difficulties, and uncertainty associated with the speed of the tourism recovery have also put on hold the construction of tourism-related projects.



3. **The overall fiscal deficit has increased sharply, particularly in countries with weaker public finances, exacerbating already problematic fiscal imbalances.** Recession-induced fiscal revenue losses, a deterioration of tax compliance, tax concessions and increases in public spending in most ECCU members aimed at mitigating the impact of the downturn, as well as higher debt servicing costs raised the region's overall fiscal deficit to 8.3 percent of GDP in 2009 from 3.6 percent of GDP in 2008 (Figure 3). The public sector is characterized by

¹ 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 ECCU is a currency union in which members pool their foreign reserves, and its exchange rate has been pegged at EC\$2.7 to US\$1 since 1976.

large wage bills, while rising debt servicing costs crowd out needed social and development spending (Figure 4).

4. Extremely high and rising regional public debt in the context of a regional currency board arrangement has exacerbated the region's vulnerability to shocks. The regional public debt jumped to above 100 percent of GDP at end 2009, from an average of 93 percent of GDP in 2006–08, reverting earlier gains in debt reduction. At current policies, debt is either on an explosive path or stubbornly high at least in some countries (Box 1).

ECCU: Selected Fiscal Indicators, 2006–10

| | 2006 | 2007 | 2008 | Prel. 2009 | Proj. 2010 |
|------------------------------------|---------------------|------|------|------------|------------|
| | (In percent of GDP) | | | | |
| Revenues | 27.6 | 28.3 | 28.4 | 27.1 | 28.1 |
| Grants | 3.6 | 2.3 | 3.1 | 3.9 | 3.6 |
| Noninterest current expenditures | 22.1 | 22.1 | 23.2 | 25.2 | 25.5 |
| Interest | 3.9 | 3.6 | 3.4 | 4.7 | 4.6 |
| Capital expenditures | 10.4 | 9.0 | 8.5 | 9.4 | 8.3 |
| Primary balance (excluding grants) | -4.9 | -2.8 | -3.3 | -7.5 | -5.6 |
| Primary balance (including grants) | -1.2 | -0.4 | -0.2 | -3.6 | -2.1 |
| Overall balance | -5.1 | -4.0 | -3.6 | -8.3 | -6.6 |
| Memorandum items: | | | | | |
| Public sector debt | 97.9 | 91.1 | 89.2 | 103.1 | 108.0 |

Sources: Country authorities; and Fund staff estimates.

5. Liquidity risk, large government exposures of some indigenous banks, and a deterioration of the private sector loan quality raise serious concerns about the stability of the banking system.

Weaknesses in the ECCU financial sector have been aggravated by the contraction of economic activity in the region, although the presence of Canadian banks (which have been remarkably stable during global turbulence in 2008–09) has offered an important source of stability (Figures 5 and 6).

ECCU: Selected Monetary Indicators, 2006–10

| | 2006 | 2007 | 2008 | 2009 | Proj. 2010 |
|---------------------------------------|----------------------------|-------|-------|------|------------|
| | (Annual percentage change) | | | | |
| Broad money | 11.6 | 9.7 | 9.0 | 1.9 | 0.8 |
| Net foreign assets 1/ | 2.0 | -1.5 | -6.8 | -2.9 | -0.4 |
| Net domestic assets 1/ | 9.6 | 11.2 | 15.8 | 4.8 | 1.2 |
| <i>Of which</i> | | | | | |
| Private sector credit 1/ | 14.6 | 17.3 | 14.3 | 2.3 | 2.9 |
| Net credit to public sector | -1.5 | 0.8 | 1.4 | 2.3 | -2.8 |
| Currency backing ratio, in percent 2/ | 98.7 | 100.1 | 102.0 | 95.6 | ... |

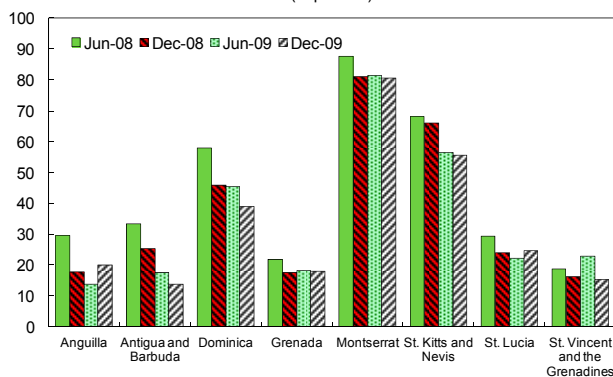
Source: ECCB.

1/ Twelve-month change in percent of broad money at the beginning of the period.

2/ Defined as ratio of the ECCB's gross foreign reserves to demand liabilities.

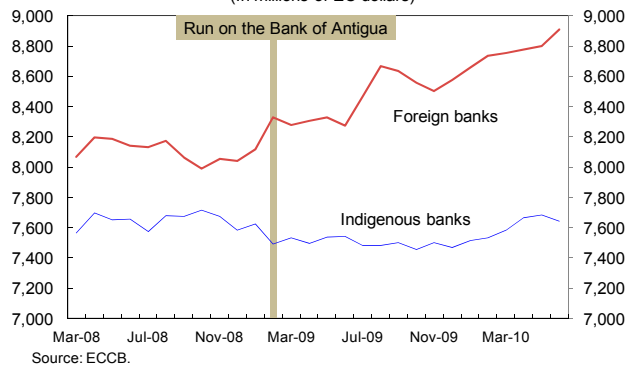
- **Private sector credit growth slowed sharply in 2008–09.** The slowdown reflected both a tightening of lending standards and subdued credit demand against the backdrop of a sharp output contraction and heightened uncertainty.

ECCU: Net Liquid Assets to Deposits Ratio of Indigenous Banks, 2008-09 (In percent)



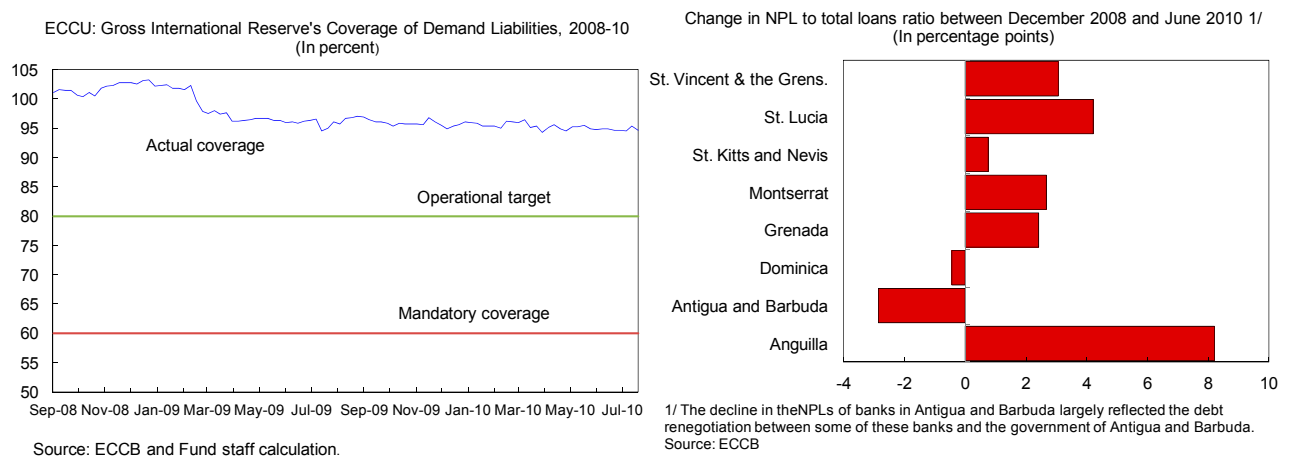
Source: ECCB

ECCU: Total Deposits by Origin of Banks, March 2008–June 2010 (In millions of EC dollars)



Source: ECCB.

- **Liquidity in the ECCU banking system tightened in 2008–09, particularly for some indigenous banks.** The interbank market interest rate has edged up since the second half of 2008. The sharp deceleration in private sector deposit growth has resulted in the tightening of liquidity conditions. Net liquid assets as a percentage of deposits in the banking system declined from about 26 percent in January 2008 to 20 percent at end 2009, before recovering marginally in early 2010. Particularly pronounced was the tightening of liquidity in some indigenous banks where the net liquid assets to deposits ratio declined by 10 percentage points from end 2007 to end 2009. To a large degree, this reflected a flight to quality after the Stanford debacle resulted in a bank run on the Bank of Antigua. (Figure 7).
- **The ECCB’s reserve coverage of demand liabilities declined below 100 percent in early 2009 and averaged about 95 percent in the first half of 2010.**² Demand liabilities are mainly currency in circulation and commercial banks’ reserve at the ECCB.



- **While headline numbers suggest adequate capital, there are increasing concerns about the strength of some indigenous banks.** Non-performing loans increased to 9.6 percent of total loans as of June 2010 in the banking system. In addition, the NPL average ratio masks heterogeneity, with some countries seeing increases of up to 8 percentage points from end 2008 reflecting the deterioration of loan portfolios in tourism and mortgages. Moreover, provisioning for loan losses covered less than 30 percent of total NPLs, and the NPL ratio is consistently higher for some indigenous banks.

² The reserve coverage ratio remains above the mandatory and operational targets. The ECCB’s reserve coverage does not include SDR holdings of ECCU Fund members. The adjusted reserve coverage including SDR holdings would amount to about 104 percent of demand liabilities as of end-June 2010.

ECCU: Financial Soundness Indicators
(in percent)

| | Capital adequacy 1/ | NPLs/ Total loans 2/ | Provisioning/ NPLs 2/ | Liquid assets/ Short-term liabilities | Gross public sector exposure/ Total assets | Return on assets | Return on equity |
|--------------------------|------------------------|----------------------------|--------------------------|------------------------------------------|-----------------------------------------------|------------------|------------------|
| June 2010 | | | | | | | |
| Aggregate banking system | ... | 9.6 | 28.5 /3 | 24.7 | 14.1 /3 | 1.8 | 9.5 |
| Anguilla | 13.6 | 17.2 | 21.3 /3 | 33.1 | 6.9 /3 | 1.1 | 7.9 |
| Antigua and Barbuda | 19.2 | 11.4 | 21.9 /3 | 40.8 | 12.5 /3 | 1.4 | 5.3 |
| Dominica | 17.3 | 6.6 | 20.6 /3 | 47.0 | 10.8 /3 | 2.7 | 34.3 |
| Grenada | 13.6 | 5.9 | 28.4 /3 | 23.6 | 12.3 /3 | 3.6 | 54.3 |
| Montserrat | 38.2 | 8.2 | 85.2 /3 | 88.2 | 9.8 /3 | 0.8 | 1.3 |
| St. Kitts and Nevis | 50.0 | 5.3 | 48.9 /3 | 53.6 | 26.5 /3 | 1.6 | 8.7 |
| St. Lucia | 20.4 | 11.1 | 31.4 /3 | 21.7 | 8.9 /3 | 1.9 | 11.7 |
| St. Vincent & the Grens. | 20.3 | 7.0 | 31.7 /3 | 38.5 | 19.0 /3 | 1.1 | 5.8 |

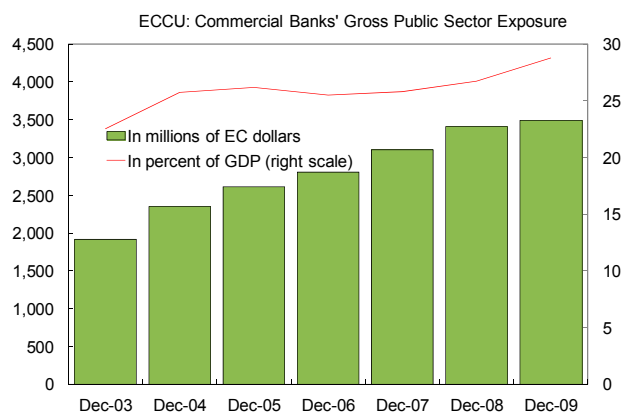
Source: ECCB.

1/ The foreign branches have consolidated capital positions with their parent banks.

2/ Non-performing loans.

3/ As of December 2009.

- Commercial banks' gross exposure to the government sector has increased substantially, mirroring rising public sector debt in the ECCU.** Gross exposure of the ECCU banks to the public sector increased by 82 percent over the period 2003–2009, reaching close to 30 percent of regional GDP (Figures 8, 9 and 10). The public sector exposure of indigenous banks stood at 24 percent of total assets in end 2009.



Sources: ECCB; and Fund staff.

Commercial Banks' Public Sector Exposure: By Country, December 2009

| | Public Sector Loan | | Public Sector Exposure | |
|---------------------------|-----------------------|--------------------------|------------------------|----------------------|
| | (In millions of EC\$) | In percent of total loan | (In millions of EC\$) | In percent of assets |
| ECCU | 2,397.2 | 16.1 | 3,494.9 | 14.1 |
| Anguilla | 140.3 | 9.1 | 151.4 | 6.9 |
| Antigua and Barbuda | 618.8 | 19.7 | 726.1 | 12.5 |
| Dominica | 35.9 | 4.6 | 172.4 | 10.8 |
| Grenada | 174.4 | 9.0 | 342.7 | 12.3 |
| Montserrat | 0.5 | 0.9 | 37.1 | 9.8 |
| St. Kitts and Nevis | 930.7 | 40.4 | 1,204.9 | 26.5 |
| St. Lucia | 243.3 | 6.2 | 487.2 | 8.9 |
| St. Vincent and the Grens | 212.6 | 17.5 | 373.1 | 19.0 |

Source: ECCB

6. **The collapse of the Trinidad and Tobago-based CL Financial Group in January 2009 has exposed weaknesses in the region’s regulatory framework for nonbanks and highlighted the risks of spillovers both across countries and between nonbanks and the banking system.** CL Financial offered fixed-term deposit-like financial products through the group’s insurance subsidiaries operating in the ECCU—CLICO Life Insurance (CLICO) and British American Insurance (BAICO), with yields far in excess of those offered by commercial banks. They also served as investment vehicles for some indigenous banks. The combined exposure of CLICO and BAICO to policy and deposit holders in the ECCU amounts to about 17 percent of ECCU GDP (Box 2). ECCU countries have committed to a regional solution aimed at avoiding system risk and protecting as far as practicable the interest of depositors and investors.

7. **External imbalances declined but remain elevated.** After increasing marginally to 37 percent of GDP in 2008, preliminary estimates suggest that the external current account deficit narrowed substantially to about 27 percent of GDP in 2009. Lower imports more than offset the continued impact of lackluster tourism performance, reflecting largely the decline of FDI-financed construction-related imports and weak domestic demand. The current account deficit was financed predominately by FDI inflows, together with some public sector long-term loans and the drawdown of net foreign assets by commercial banks (Figures 13 and 14).

8. **The authorities have committed to a coordinated regional response to the economic downturn through the Eight-point Stabilization and Growth Program, signed by ECCU governments in December 2009.** It focuses on the implementation of a stabilization package covering financial programs, fiscal reforms, and debt management; a stimulus package (public sector investment programs (PSIP) and social and financial safety nets); and a more structural focused package, comprising the amalgamation of some indigenous banks and reform of the insurance sector.

9. **There have been renewed efforts to step up integration.** Driven in part by the fallout from the economic and financial crisis, the authorities stepped up their efforts to deepen regional integration by signing the Organization of Eastern Caribbean States (OECS) Economic Union Treaty.³ The new OECS Treaty, to be ratified by the respective member countries by January 2011, would pave the way for the free movement of people, goods, services, and capital among participating countries. The Treaty also allows for the transfer of legislative powers in five specific areas from national parliaments to the OECS Authority, comprising the heads of government, thereby strengthening the institutional set up of a

³ The OECS was established on June 18, 1981 on the signing of the Treaty of Basseterre. The OECS comprises Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, with the British Virgin Islands (joined in 1984) and Anguilla (joined in 1995) as associate members. The British Overseas Territory of Montserrat is expected to sign the new Treaty shortly, after receiving permission from the U.K. government; while associate members Anguilla and the British Virgin Islands will not be members at this juncture. The new Treaty was signed by participating governments on June 18, 2010.

full-fledged economic and monetary union. However, fiscal policy continues to be under the purview of national governments (Box 3).⁴

II. OUTLOOK AND RISKS

10. **Economic activity in the region is expected to remain subdued throughout 2010 and likely to recover only slowly in 2011.** Weakness in labor markets in advanced economies will continue to weigh on tourism. Financial sector stress and the urgently needed large fiscal consolidation will dampen domestic demand. Inflation, which declined sharply to an average of 0.8 percent in 2009 reflecting the widening output gap and falling prices of imported food and energy, is expected to gradually revert to its long run average of about 2 percent, given the anchor of the currency peg.

11. **While the region's overall fiscal deficit is projected to narrow in 2010, imbalances will remain elevated and—in some countries—increase further.** Reflecting in large part the fiscal adjustments envisaged under Fund programs with Antigua and Barbuda and Grenada—the fiscal deficit for the region is projected to decline, but remain elevated at about 4.4 percent of GDP for 2010–15, while public debt will stay above 100 percent of GDP through 2015. Some ECCU countries have embarked on ambitious adjustment programs, but others are still on an unsustainable path, risking the viability of the currency union.

12. **The external current account deficit in 2010 is projected to remain broadly unchanged from the level in 2009, but to narrow over the medium term.** The current account deficit in 2010 will be mostly financed by FDI inflows—albeit at a much lower level than during the FDI-boom years in 2006–08—as well as public sector long-term borrowing. The current account imbalances are expected to narrow in line with a gradual recovery in tourism receipts and fiscal consolidation over the medium term. In turn, FDI inflows will likely remain subdued and external official flows will return to pre-crisis levels.

13. **There are considerable downside risks associated with this outlook.**

- A slower recovery of the global economy than currently envisaged, including a double-dip recession in the United States, would further undermine tourism demand and remittance flows, causing another decline in economic activity in the ECCU.
- A lower than expected recovery in FDI flows would place additional pressure on the current account balance and undermine growth prospects.
- Without remedial fiscal action, governments' payment capacity might be threatened in countries with dire fiscal imbalances adversely affecting liquidity and even solvency in banks with large public sector exposures.

⁴ These five areas are related to the common market and customs union, monetary policy, trade policy, maritime jurisdiction and maritime boundaries, and civil aviation.

- Critically, against the backdrop of a slow recovery of the ECCU economy and the lagged impact of the recession, the ECCU banking system is likely to be under stress for some time to come. This could potentially erode confidence in the ECCU banking system and the currency board arrangement.⁵
- With heightened vulnerabilities, any new shock could send the region into a downward spiral.

III. POLICY DISCUSSIONS⁶

14. **Policy discussions focused on the consistency (or lack thereof) of policies to support the common currency. In particular, discussions focused on five main themes:**

- A. Strengthening the institutional underpinnings of the ECCU;
- B. Restoring fiscal and debt sustainability;
- C. Ensuring the resilience of the financial system, including improving the framework for crisis preparedness and management;
- D. Enhancing external stability, growth and competitiveness; and
- E. Enhancing ECCU and Fund engagement.

A. Strengthening the Institutional Underpinnings of the ECCU

15. **The continued success of the currency union and peg to the U.S. dollar needs to be supported by consistent fiscal policies across all member countries, including an appropriate institutional set-up to foster fiscal policy coordination.** Fiscal cross-border spillovers from the weakest member, as well as the large exposure of a number of indigenous banks to the public sector could potentially undermine confidence and trigger a full-blown crisis, possibly via the banking system. Despite the fact that the Monetary Council adopted (in July 2006) a debt-to-GDP target of 60 percent for 2020, the measure has largely been ineffective. Staff urged the authorities to develop mechanisms to ensure collective fiscal discipline in the short run, although they may want to consider moving toward a fiscal union in the medium term. As the European Union experience shows, coordination is a difficult challenge and considerable political capital has to be spent to achieve results.

⁵ Although the statutory requirement for foreign reserves is 60 percent of ECCB's demand liabilities, the ECCB has functioned as a full-fledged currency board during the last decade, involving minimal lending to governments and banks while achieving a currency backing ratio of about 100 percent.

⁶ This report covers regional topics, highlighting the common policy and cross-border issues of members of the currency union, and provides a regional perspective on economic policies relevant for Fund surveillance for which responsibility lies at the national level. Analysis of the developments and prospects of individual ECCU countries, with a focus on national fiscal and structural policies, can be found in bilateral Article IV staff reports.

16. **Building on the Eight Point Program and this common policies discussion, the authorities agreed on the need to adopt annual fiscal targets.** In line with staff's recommendation, the ECCU authorities agreed to adopt annual primary surplus targets consistent with attaining the medium term debt-to-GDP target. As Dominica's experience has shown, an annual primary surplus target can be a very effective instrument to shape the debate on the budget.⁷ The authorities do not intend to present the parameters of national budgets to the Monetary Council nor do they envisage using specific incentives to ensure compliance at this juncture. However, they plan to publish the fiscal targets to increase policy transparency and to enhance the peer review process. Staff indicated that the Fund stands ready to support the authorities' increased fiscal coordination through analytical background work and technical assistance.

B. Fiscal Consolidation and Debt Sustainability

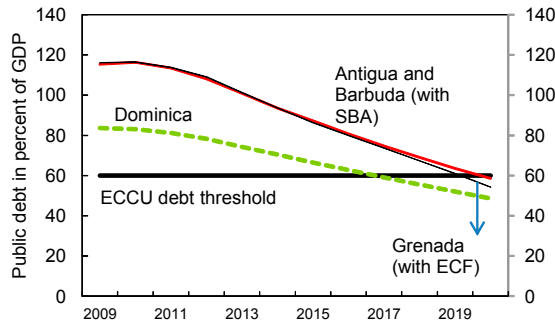
17. **In terms of fiscal targets, the surge in fiscal deficits in 2009/10 put further pressure on public debt sustainability calling for ambitious adjustments to ensure sustainable debt dynamics.** The continued viability of the common currency/peg to the U.S. dollar depends critically on a simultaneous implementation of strong policies by all ECCU members. Strong fiscal adjustments would also facilitate a reduction in the external current account deficit.

18. **Some countries have already started to implement ambitious measures, with primary surplus targets that are consistent with a debt-to-GDP ratio of 60 percent by 2020.** The targeted primary surpluses of about 2 percent of GDP implemented under current policies in Dominica and about 4 percent of GDP envisaged under the current economic programs in Antigua and Barbuda⁸ and Grenada would put the debt dynamics in these countries on a sustainable path. Staff emphasized that while these measures are necessary and commendable, without concomitant adjustments in the other ECCU countries, the currency union will remain at risk.

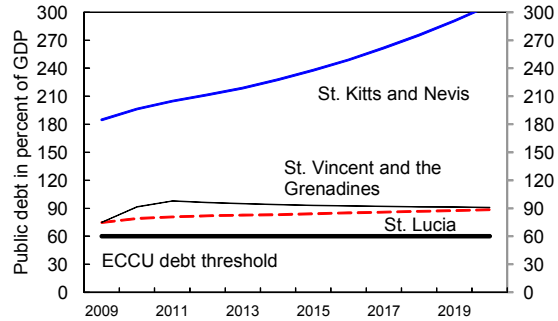
⁷ Dominica adopted a primary surplus target during the period of a Fund program, and this continues to be an effective anchor.

⁸ In the case of Antigua and Barbuda, the authorities intend to support the large fiscal adjustment by seeking a comprehensive public debt restructuring.

ECCU: Public Debt and Fiscal Adjustments Under Current and Program Policies, 2009-2020



| | Primary Balance Target (In percent of GDP) | | |
|---------------------|-----------------------------------------------|------|---------|
| | 2009 | 2010 | 2011-15 |
| Antigua and Barbuda | -11.5 | 3.0 | 3.7 |
| Dominica | 3.0 | 1.2 | 2.3 |
| Grenada | -3.8 | 0.3 | 3.7 |

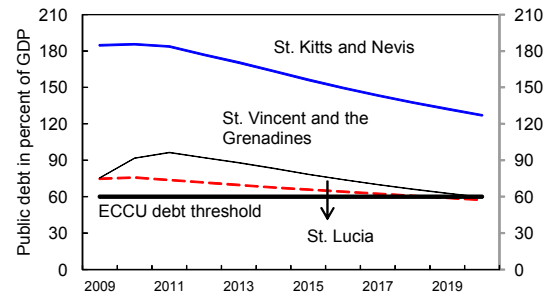


| | Primary Balance Target (In percent of GDP) | | |
|-----------------------------------|-----------------------------------------------|------|---------|
| | 2009 | 2010 | 2011-15 |
| St. Kitts and Nevis | 5.0 | -6.8 | -3.8 |
| St. Lucia | -2.5 | -3.1 | -1.3 |
| St. Vincent and the Grenadines | -0.5 | -9.5 | -1.0 |

Source: Country authorities and Fund staff estimates.

19. **For the other countries, and in line with the recently completed Article IV consultations, staff reiterated the need for fiscal adjustments ranging from about 3 percent of GDP in St. Lucia and St. Vincent and the Grenadines, and close to 10 percent of GDP in the case of St. Kitts and Nevis.** In addition to reducing fiscal vulnerabilities, the adjustment would also reduce the current account deficit. For St. Kitts and Nevis, the recently announced fiscal consolidation package includes the introduction of VAT, elimination of tax exemptions, an increase in the social service levy, a freeze in wages and hiring, and greater prioritization of capital spending.⁹ St. Lucia's adjustment would also critically depend on the

ECCU: Public Debt and Fiscal Adjustments, Active Scenario



| | Primary Balance Target (In percent of GDP) | | | |
|-----------------------------------|-----------------------------------------------|------|---------|--------------------------|
| | 2009 | 2010 | 2011-15 | 2011-15 Adjustment 1/ |
| St. Kitts and Nevis | 5.0 | 1.7 | 5.8 | 9.7 |
| St. Lucia | -2.5 | 0.2 | 1.7 | 3.0 |
| St. Vincent and the Grenadines | -0.5 | -9.5 | 1.8 | 2.8 |

Source: Country authorities and Fund staff estimates.
1/ The difference of primary balance under active scenario and current policies.

⁹ These measures are not reflected in the baseline projections. The authorities announced their policy priorities at the National Consultation Day on September 2, 2010. Even with this large fiscal adjustment, St. Kitts and Nevis still has a residual financing gap, which grows larger in the medium term (averaging close to 4 percent of GDP in 2011-15), and debt remains too high. To close the financing gaps staff recommended that the authorities seek financial support from international financial institutions, including the Fund, to underpin the home-grown adjustment program, and design further medium-term fiscal measures.

implementation of the VAT. In the case of St. Vincent and the Grenadines, the adjustment would hinge on a mix of revenue and expenditure measures, including improvements in the efficiency of tax collections, reduction of exemptions, and limiting the growth in the wage bill.

20. **Staff welcomed the authorities' commitment to seek a consensus on the respective fiscal targets at an extraordinary Monetary Council Meeting in September 2010.** While the targets still need to be defined, the authorities indicated that they were in broad agreement with the targets presented by staff. In this context, staff also noted that it would be important for the authorities to secure the political consensus for the effective implementation of these fiscal targets in this challenging time.¹⁰

21. **Measures aimed at containing current expenditure, prioritizing public investment spending, and enhancing expenditure efficiency will have to be critical components of fiscal reform programs.** While there is room to increase revenue by eliminating tax exemptions and broadening the tax base, high and rising public expenditure call for a broad public expenditure reform. In this context, staff welcomed the authorities' establishment of a Public Expenditure Commission, which held its first meeting with Fund participation on September 3. Based on the preliminary findings of a FAD technical assistance report, the focus on any reform needs to center on reducing the wage bill, a rationalization of statutory bodies, pension reform, and measures to strengthen public financial management to minimize fiscal slippages, including off-budget activities (Box 4).¹¹ In particular, wage bill management should be part of a comprehensive civil service reform aimed at reducing the overall size of government and improving efficiency in the delivery of public services.

22. **The authorities recognized the benefits in examining the composition and quality of government expenditure.** They concurred that reducing the wage bill through attrition would provide significant savings, especially if combined with wage freezes which have been implemented in some countries. A number of the ECCU authorities highlighted that the adoption of a regional approach would facilitate achieving public sector wage reduction and improvements in social safety nets in the context of limited fiscal space. Some ECCU authorities are moving forward with civil service reforms with support from the World Bank. There was also a broad agreement on the need to review the effectiveness of statutory bodies to create fiscal space. The authorities agreed that pension reform was critical in restoring the health of ailing social security systems and looked forward to implementing the recommendations from the Pension Commission.

¹⁰ St. Vincent and the Grenadines has to call general elections by March, 2011, and St. Lucia's elections are due in December 2011.

¹¹ Public expenditure TA provided by FAD to Antigua and Barbuda and St. Lucia would be extended to other Fund members of the ECCU, and the output of these TA will form part of the report to the Public Expenditure Commission.

23. **Staff encouraged the authorities to further strengthen the debt management capacity to complement the fiscal consolidation effort.** The benefits of having “below-the-line” fiscal improvements, linked to better institutional frameworks and strengthened capacity for debt management, as well as a clear medium-term debt strategy, will help to reduce financial risks and place the debt-to-GDP ratio on a sustainable downward trajectory. In this context, staff welcomed the work by the ECCB through the Debt Management Advisory Service (DMAS) Unit, which is funded by the Canadian International Development Agency (CIDA) (CAD\$ 7.2 million), to improve the debt management capacity of ECCU members.¹²

C. Resilience of the Financial System

Banking sector

24. **The exposure of some indigenous banks to highly indebted governments and increasing private sector NPLs are taking a toll on the health of the financial system, if left unchecked, could lead to regional spillovers and undermine the confidence in the currency.** Safeguarding financial system stability calls for prompt efforts in addressing the underlying fiscal problems, resolving weak institutions, enhancing crisis preparedness and contingency plans, and strengthening regulation and supervision. While the authorities have been able to avoid a full blown crisis and made progress on some of the critical issues (including by intervening in the Bank of Antigua), decisive policy action is required on a number of fronts. Given the expected slow recovery of the ECCU and the lagged impact of the recession, the banking system will continue to face both credit and liquidity risks during 2010-11 (Box 5).

25. **Financial sector stability in the ECCU is intertwined with fiscal and debt sustainability as impairment of a government’s payment capacity could affect banks’ liquidity and solvency.** For some indigenous banks, a large share of their assets is related to the government, which entails the risk that a disruption of government’s payment capacity could lead to an adverse downward spiral. In the near term, liquidity risks would remain significant as some governments are facing financing difficulties—as evidenced in some cases through the build up of arrears—and high rollover risk. Given the large exposure of some indigenous banks to the government, a sovereign debt crisis could trigger a banking crisis with potential spillovers across banks and the ECCU via the payment system and a generalized loss of confidence. If not well managed, this in turn could lead to capital flight and undermine the stability of the currency peg. Staff highlighted that fiscal consolidation and a reduction in government exposure is paramount and urged the authorities to change the public sector financing model in those countries that rely mostly on the banking system. The authorities

¹² Activities to be undertaken by the project include the preparation of national debt strategies to guide the acquisition of debt; the provision of support to efforts aimed at expanding the use of the Regional Government Securities Market (RGSM) to improve cash flow and debt management; and the strengthening of the capacity in member countries to manage debt.

reiterated that they are committed to fiscal adjustments and are seeking ways to either reduce or limit bank exposures to the government.¹³

26. Staff welcomed the authorities' intention to engage in a preemptive resolution of weak indigenous banks. Experiences from the global financial crisis highlight that liquidity problems in the banking system are often symptoms of underlying problems, which could quickly become solvency issues.¹⁴ In addition, the recent experience with the Bank of Antigua illustrated how quickly confidence can erode. Preemptive actions, including a possible removal of impaired assets from banks' balance sheets and consolidation of the sector could help to minimize the eventual fiscal cost and reduce vulnerability. In this context, staff welcomed the appointment of the Ministerial Sub-committee on Banking of the Monetary Council to provide strategic guidance and oversight. In addition, the ECCB also established a Recapitalization Committee (RECAP) in 2009 to (i) facilitate the preparation of contingency plans of watch-listed banks and (ii) propose alternatives for a new structure of the banking sector in the ECCU. In addition, it intends to establish a Resolution Trust, which would be registered in St. Kitts with licenses to operate in all the ECCU territories.

27. Staff highlighted that the size of the capital shortfall could be large and encouraged the authorities to consider seeking equity participation from strong regional/foreign banks. Headline NPLs and capital numbers may not fully reveal the state of the banking system¹⁵ and the cost of the resolution could be significantly larger than currently envisaged by the authorities, potentially leading to large government liabilities, and calling into question the authorities' ability to raise the necessary financing. In this context, staff urged the authorities to perform bank specific diagnostics without delay and consider a resolution strategy that includes burden sharing by all parties and offered technical assistance. The participation of regional or foreign investors in the resolution would also improve the governance in the banking sector through the application of evolving best international practices and facilitate the creation of an arm's length relationship between the bank and the government. The authorities indicated that they were currently reviewing a number of resolution strategies, including the amalgamation of a number of indigenous banks and would be open to foreign/regional strategic investors, but a final decision had not been made.

28. The authorities and staff agreed that contingency plans need to be enhanced, with clearly defined responsibilities of relevant institutions in the event of a crisis. Crisis management and contingency planning should include specific measures to strengthen the

¹³ The government of St. Vincent and the Grenadines, for example, plans to use a Caribbean Development Bank (CDB) loan to reduce the National Bank's exposure to the government.

¹⁴ As of end March 2010, the net liquid asset-to-deposit ratio showed that some indigenous banks fell below the ECCB's minimum prudential requirement of 20–25 percent.

¹⁵ A pre-emptive restructuring of loans by banks could, for example, mask the underlying deterioration in loan quality.

ECCB's monitoring capacity to ensure early detection of bank stress; and capacity to provide liquidity support with appropriate safeguards to contain a bank run and protect the central bank's balance sheet. Also, staff urged the authorities to increase the scope and frequency of on-site inspections and enforcing remedial measures on identified weak banks (Box 6). In this context, staff encouraged the authorities to keep the SDR allocations as a shared liquidity buffer, and to consider strengthening this buffer further.¹⁶

29. Staff welcomed the important steps taken by the ECCB in closely monitoring banking risks, in particular the liquidity situation in the banking system. The ECCB is conducting bank stress tests¹⁷ and has established a Liquidity Watch Group (LWG) to follow liquidity conditions in individual banks based on daily bank-by-bank data. Also, the ECCB has strengthened monitoring and coordination of its own credit facilities available to governments and banks¹⁸ and the interbank market.

30. The authorities and staff agreed that a continued review of the bank resolution framework and stepped-up efforts in strengthening banking regulation and supervision are needed. The resolution framework was tested recently during the intervention of the Bank of Antigua. While the ECCB successfully assumed control of the institution, the intervention revealed the need for a review of the respective national laws.¹⁹ Also, in line with FSAP recommendations, the authorities need to strengthen consolidated supervision by the ECCB of offshore bank affiliates of some indigenous banks. Also, staff encouraged the ECCB to strengthen the uniform implementation of revised regulatory guidelines on the treatment of nonperforming public sector obligations (i.e., risk-weighted at 20 percent) and for capital

¹⁶ While St. Vincent and the Grenadines has drawn some 90 percent of its SDR allocations, Dominica, Grenada, and St. Lucia have indicated they would keep the SDR allocations as a liquidity buffer. At the same time, the authorities are currently considering using part of the SDR allocations for the capitalization of BAICO and/or to provide capital to newly created resolution trust.

¹⁷ As a result of the stress tests, some indigenous banks have been put on a watch list.

¹⁸ The ECCB operates under a statutory requirement to maintain at least 60 percent of its monetary liabilities backed by reserve assets. The residual 40 percent could in principle be used for discretionary lending operations to governments and banks. In the beginning of each fiscal year (April 1), the ECCB determines global limits of its lending based on an operational target of 20 percent of average demand liabilities during the previous year, of which 60 percent is for member governments (allocated in proportion of each government's share of total regional recurrent revenue less all outstanding balances and arrears) and 40 percent to financial institutions (no distribution of limits to individual banks or other credit institutions).

¹⁹ The Bank of Antigua suffered a bank run in the week beginning February 16, 2009 precipitated by the publication of negative statements regarding its shareholder, Allen Stanford. The failure of the Bank of Antigua could have destabilized the banking and financial system in Antigua and Barbuda, and potentially led to spillovers to other ECCU territories via its participation in the clearing and settlement system. To avoid a financial crisis, the ECCB, on the direction of the Monetary Council and in accordance with its Emergency Powers, conferred on it by the ECCB Agreement 1983, assumed control of the Bank of Antigua on February 20, 2009. A management company, Eastern Caribbean Amalgamated Financial Company Ltd was appointed to manage the Bank of Antigua on behalf of the Central Bank to return it to normalcy. The intervention, however, showed, for example, that the amendment to the ECCB Agreement Act that provides for emergency powers passed in Antigua and Barbuda was not identical with the regional uniform amendment, due to transcription error.

adequacy ratios to appropriately reflect risks faced by banks.²⁰ In this context, staff encouraged the ECCB to further enhance risk-based bank supervision. The authorities reassured staff that the revised regulatory guidelines are applied uniformly and the ECCB would continue to move towards the implementation of risk-based bank supervision. In the medium term, regulation and supervision needs to be aligned with emerging international best practice to eliminate incentives for the over-exposure to government.

Non-bank financial sector

31. **Although the authorities have adopted a regional strategy toward the resolution of BAICO, progress has been modest and a comprehensive strategy for CLICO still needs to be defined.** Staff supported the ECCU authorities' announced steps toward the resolution of BAICO, including the establishment of a new insurance company, but raised concerns about the ability of the authorities to raise the necessary capital.²¹ In the case of CLICO, staff urged the authorities to adopt a regional approach, in close coordination with Barbados. In this context, staff welcomed the authorities' decision to prohibit the writing of new policies and the planned appointment of judicial managers for all the ECCU countries. With a total exposure of the ECCU to the two companies of 17 percent of regional GDP, staff reiterated the need to minimize the fiscal cost, through revision of existing terms, extension of tenor, and possibly conversion of some liabilities into equity. Also, given the potential of write-offs, banks should be required to make appropriate provisions.

32. **The need to strengthen non-bank regulation and supervision was underscored by the Stanford-related Ponzi scheme and the collapse of CL Financial.** While the ECCB is responsible for banking supervision, licensing of all financial institutions and supervision of nonbank financial institutions remain the domain of national governments. The authorities recognized the urgent need to complete the establishment of independent single regulatory units (SRUs) for the non-bank sector in all ECCU members and enactment of outstanding legislation governing the non-bank sector. Remaining work to be done includes enacting or harmonizing new insurance legislation, as well as the Cooperative Societies Act, and establishing statutory funds for insurance companies to back up local liabilities.²² In this context, staff welcomed the work of the Regional Oversight Committee (ROC), established in 2009 comprising all financial sector regulators in the ECCU, the ECCB, the SRUs, and the Eastern Caribbean Securities Regulatory Commission) as a positive step in providing a framework for discussing financial sector issues and the exchange of information in a

²⁰ Banking regulation was passed in all ECCU territories, except Antigua and Barbuda and St. Kitts and Nevis, stipulating a higher level of capital based on bank's risk profile. The ECCB is also revising its capital computation to include elements of market risks.

²¹ BAICO's current resolution strategy is, for example, predicated on the ability of the ECCU countries to receive US\$100 million from Trinidad and Tobago.

²² Both pieces of legislation benefited from CARTAC TA. While legal frameworks for SRUs exist in Anguilla, Dominica, Grenada, Montserrat, and St. Kitts and Nevis, so far SRUs are only operational in Grenada and Dominica. New insurance laws have been enacted in Antigua and Barbuda, Grenada, St. Kitts and Nevis, and St. Lucia.

comprehensive manner. Staff, however, pointed out that coordination should be institutionalized through the establishment of complete memorandum of understandings (MOUs), and taking further steps to strengthen supervision of nonbank institutions.

33. Staff urged the authorities to ensure the appropriate supervision of systemically important credit unions, to consolidate the sector, and to move non-bank supervision and regulation to the regional level. The large number of non-bank financial institutions, now comprising 58 credit unions and more than 150 insurance companies, renders effective supervision impossible. In the short run, staff recommended that the supervision of systemically important credit unions be transferred to the ECCB. Also, efforts to collect and compile data from non-bank financial institutions need to be strengthened. In the medium term, and given the capacity constraints to effectively supervise the large number of non-banks, staff recommended the merger of smaller institutions,²³ the creation of centers of excellence via the pooling of regulatory and supervisory expertise across countries, or possibly the establishment of a regional non-bank regulator/supervisor, that is, the merger of the national SRUs. Since the authorities might not have the necessary resources to assess which of the nonbank institutions are viable, continued technical assistance from IFIs, regional and development partners would be needed. While the authorities agreed that regional cooperation would help to build expertise in critical disciplines and facilitate information sharing and highlighted that some mergers were already taking place, they emphasized the political constraints in both creating a regional non-bank supervisor and transferring large credit unions to the ECCB.

34. The offshore financial sector in the Caribbean region continues to face pressure to comply with international standards aimed at reducing tax and regulatory havens, which could have an adverse impact on FDI inflows. Staff welcomed the recent signing of the necessary twelve Tax Information Exchange Agreements (TIEAs) by all ECCU member countries, allowing them to be removed from the OECD grey list. At the same time, staff urged the authorities to develop the capacity to respond to the forthcoming peer review process. Also, the authorities may want to build on the Ministerial Sub-committee on International Financial Services of the Monetary Council, to address these issues in a regional context. Furthermore, the authorities may want to consider the cost and benefit of the offshore sector and, if the analysis warrants it, consider exiting the sector altogether.

D. External Stability, Growth and Competitiveness

External stability

35. Although the real effective exchange rate (REER) appears broadly in line with fundamentals, required fiscal adjustments need to be accompanied by REER depreciations in the near future. The equilibrium real exchange rate approach indicates an undervaluation of about 2 percent. Based on the macro balance approach, the estimated current

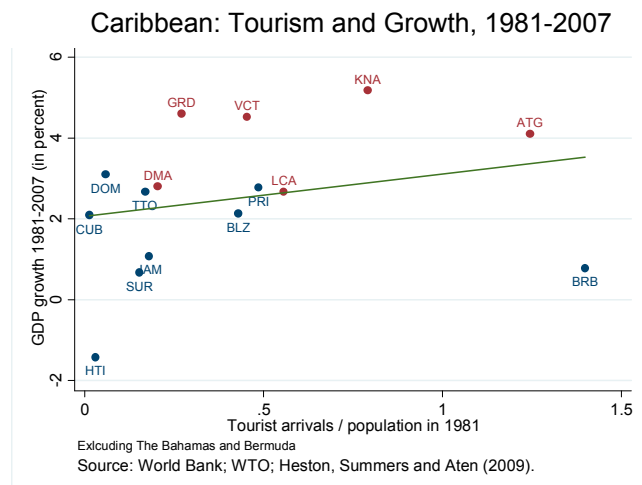
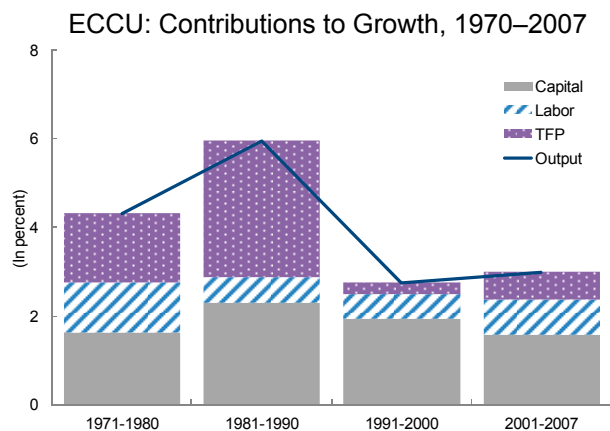
²³ The Roseau Cooperative Credit Union, the largest in the ECCU, has recently announced its plan to merge with four other credit unions in Dominica.

account norm ranges between -17 and -20 percent of GDP, broadly in line with staff projections of a medium-term current account deficit for the ECCU of around 19 percent of GDP. However, apart from the limitations of the assessment methodologies for countries with data deficiencies and hard pegs, large fiscal adjustments are recommended that would go beyond the baseline projections and that would reduce the equilibrium current account deficit (the current account norm) implying a depreciation of the equilibrium REER.²⁴ Given the peg, this will require an adjustment in relative prices to maintain output close to potential (Box 7). To support such a relative price adjustment, staff highlighted the urgent need to moderate real wage growth or even lower wages, especially in the public sector, given the signaling role of public wages in the economy.

Growth and Competitiveness

36. **Following the dismantling of trade preferences for agricultural products, growth has slowed significantly since the 1990s, but tourism has helped to offset some of the decline.** Staff analysis suggested that prior to the more recent decline growth was primarily driven by capital and productivity gains, but that during the past two decades, the contribution of productivity has fallen significantly (Box 8).

37. **Staff indicated that tourism-led growth remains a viable strategy for the ECCU, especially for the countries with lower income per capita that entered the tourism sector more recently.** ECCU countries have recently experienced a decline in market share. In some countries, however, lower tourist arrival was offset by higher tourism expenditure suggesting that moving toward high-end tourism is warranted. At the same time, staff highlighted that some countries will have to look at their cost structures (especially wages) to regain competitiveness (Figure 15). Staff cautioned that the authorities should focus



²⁴ The additional fiscal adjustment would imply a lower equilibrium current account deficit, even though FDI would be higher.

on improving the business climate²⁵ rather than picking winners and losers and instead encourage private sector led efforts in accelerating tourism growth.

38. **Staff also highlighted that available empirical evidence suggests that countries with high public debt-to-GDP ratios grow slower than their peers.**²⁶ Reducing high fiscal deficits and public levels will therefore not only reduce vulnerabilities but also be critical to foster growth.

39. **Output volatility.** Despite the sharp decline in output reflecting the close economic linkages to the United States, staff emphasized that an active regional diversification strategy is not called for given the historically low output volatility of large and diversified advanced economies such as the United States. Staff analysis also indicates that despite frequent natural disasters, the ECCU's output volatility is not greater than in other low income member countries eligible for Fund's concessional financing.

40. **There was a broad consensus among the authorities that one of the key challenges of the region is how to boost economic growth.** Affirming that tourism will continue to be the main driver of growth, some ECCU governments emphasized that in addition to developing niche strategies to seek high end tourism, reducing wage costs, especially in the public sector, would be a critical factor in making the region's tourism more competitive. The authorities recognized that high debt levels are a hindrance to growth and that government expenditure need to be constrained to reduce debt. However, they noted the difficulties of achieving this given the large role the government plays in the economy through pursuing growth-enhancing capital spending due to the lack of a vigorous private sector. The authorities also underscored that the recent signing of the new OECS Treaty opened new opportunities for a regional marketing strategy offering multi-country destinations to attract more tourists, especially from fast growing non-traditional markets.

²⁵ Empirical analysis suggests that there is positive relationship between business-friendly regulation and economic growth (see Djankov, Simeon, Caralee McLiesh and Rita Maria Ramalho, 2006, "Regulation and Growth," *Economics Letters*, Vol. 92, pp. 395–401). As revealed by the Ease of Doing Business indicator, in the ECCU emphasis should be placed on improving contract enforcement and reducing difficulties in registering property (Figure 16).

²⁶ See for instance, IMF, 2010, *Fiscal Monitor* (Washington: International Monetary Fund) and Reinhart, Carmen and Kenneth Rogoff, 2010, "Growth in a Time of Debt," *American Economic Review*, Vol. 100(2) (May), pp. 573-78.

E. Enhancing ECCU and Fund Engagement

41. **Given intensified vulnerabilities, the Fund is further enhancing its engagement with the ECCU.** Responding to the global financial crisis and idiosyncratic shocks, during 2009/10, the Fund provided financing to all of the six ECCU Fund members beyond the SDR allocations. The Fund will continue to offer significant technical assistance to the region either directly from HQ or through CARTAC to foster the institutional capacity for policy analysis and implementation and to further improve the collection and dissemination of statistical data (Box 9).

The region faces challenges posed by administrative capacity constraints which are hampering implementation and progress of the necessary reforms and of the ongoing Fund-support programs. With significant support from CARTAC, the authorities have, for example, rebased the GDP series and revised the CPI, both of which are expected to be released in October 2010 (Box 10). The newly established

regional resident representative office should also further strengthen the dialogue between the authorities and the Fund in the region. In addition, the Fund stands ready to step-up both bilateral and regional surveillance, provide assistance in fostering policy coordination among ECCU members, and provide additional financing in support of strong adjustment programs.

42. **In response to the authorities' inquiry, staff stressed that lending into a regional pool is not an option at this juncture²⁷—i.e. programs would continue to take place on a country-by-country basis—but coordination among programs is possible.²⁸** In this context, Fund's lending to all ECCU countries concurrently would help fostering policy coordination and strengthen the currency union. Given the unique challenges of the

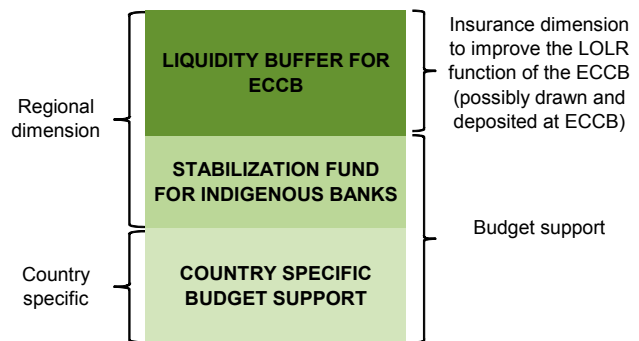
ECCU: Recent Use of IMF Lending Facilities, 2006-2010

| | Lending facilities 1/ | Date of approval | Amount approved | | |
|--------------------------------|-----------------------|------------------|---------------------|---------------------|---------------------|
| | | | In millions of SDRs | In millions of US\$ | In percent of quota |
| Antigua and Barbuda | SBA | Jun-10 | 81 | 117.8 | 600 |
| Dominica | ENDA | Feb-08 | 2.1 | 3.3 | 25 |
| | ESF-RAC | Jul-09 | 3.3 | 5.1 | 40 |
| Grenada 2/ | ECF | Apr-06 | 16.4 | 24.4 | 140 |
| | ECF | Apr-10 | 8.8 | 13.3 | 75 |
| St. Kitts and Nevis | ENDA | May-09 | 2.2 | 3.4 | 25 |
| St. Lucia | ESF-RAC | Jul-09 | 6.9 | 10.7 | 45 |
| St. Vincent and the Grenadines | ESF-RAC | May-09 | 3.7 | 5.7 | 45 |
| Total | | | 124.3 | 183.7 | |

1/ ECF: Extended Credit Facility; ENDA: Emergency Assistance for Natural Disaster; ESF-RAC: Exogenous Shocks Facility (Rapid Access Component); and SBA: Stand-By Arrangement.

2/ The ECF arrangement in an amount equivalent to 90 percent of quota was approved in April 2006. The first ECF augmentation (12 percent of quota) was approved in July 2008 and the second augmentation (38 percent of quota) was approved in June 2009.

Country specific and regional dimensions of Fund financial assistance to ECCU countries



²⁷ A change in the Articles of Agreement would be needed for the Fund to be able to lend into a regional pool.

²⁸ The Fund's financial assistance to Euro zone members, for example, takes place on a country-by-country basis using existing lending instruments. The activation of the European Stabilization Mechanism (ESM) is subject to strong conditionality in the context of a joint EU-IMF support. While coordinated, IMF conditionality is separate from conditionality under the EU arrangement.

ECCU, staff mentioned that there are ways to coordinate country specific measures that are part of Fund programs with the resolution of matters that have a regional dimension. In particular, this could include—and in addition to country specific budget support—the use of Fund financing of country programs for strengthening the lender-of-last resort capacity of the ECCB²⁹, and facilitating a joint bank resolution strategy for some indigenous banks.³⁰

43. **Against the backdrop of the economic crisis, the authorities noted that the ECCU members and the Fund have an opportunity to develop a creative partnership appropriate to both the individual country’s circumstances and issues confronting the currency union.** They agreed to continue discussing with the Fund the potential need for balance of payments support and thought it would be best to take into account the regional dimension of the ECCU into possible future Fund arrangements. They also stressed the importance of continued cooperation with the Fund and other international financial institutions to support policy adjustment in the region. The authorities asked the Fund to assist them in accessing TA and financial resources from other IFIs and donors.

IV. STAFF APPRAISAL

44. **The ECCU is at crossroads.** While the currency board arrangement has provided a strong anchor and continues to be an appropriate exchange rate regime, the global financial and economic crisis has brought to the fore pockets of significant weaknesses. Surging fiscal deficits, the lack of institutional arrangements for fiscal consolidation, unsustainable debt levels, and stress in the financial sector are threatening the underpinnings of the currency union and the currency board. Despite the implementation of reforms by a number of countries, decisive policy action on a number of fronts is urgently needed to ensure the viability of the currency union.

45. **The ECCU region has been hard hit by the global economic downturn and is faced with a protracted recovery.** Real regional GDP contracted by 6.2 percent in 2009, reflecting a collapse in tourist arrivals and FDI-financed construction activity. Continued weakness in private consumption and high rates of unemployment in the advanced economies has dampened prospects of a rapid recovery and 2011 is likely to remain a very challenging year. In addition, risks to the outlook continue to be on the downside.

²⁹ A number of metrics could be used to determine the optimal level of reserves. A common central bank practice is to have a reserve coverage of about 10–15 percent of deposits. Given the ECCB’s operational target of at least 80 percent of demand liabilities and the weakness of some of the indigenous banks, this would imply maintaining international reserve coverage slightly above 100 percent of demand liabilities as of end 2009. Such a liquidity buffer would also be consistent with meeting deposits withdrawal in an extreme deposit run on some indigenous banks in one large ECCU country.

³⁰ Staff emphasized that Fund financial support would be based on members’ balance-of-payments needs.

46. **The main challenge is fiscal consolidation.** The currency union needs to be supported by consistent fiscal policies across all member countries. Reducing high fiscal deficits and public debt levels are critical for fostering growth. The authorities' decision to translate the current debt target of 60 percent of GDP by 2020 into annual primary surplus targets is an important step in the right direction, but the challenge will be both to ensure implementation and compliance. In this context, political consensus to promote fiscal discipline in the region and efforts to further strengthen the fiscal governance system and debt management capacity are needed to secure fiscal consolidation. To put debt on a sustainable downward trajectory, most countries require a primary surplus of 2 to 4 percent of GDP over the next few years depending on initial conditions. In the case of St. Kitts and Nevis, the primary surplus target needs to be significantly larger given the more adverse initial conditions.

47. **Rationalizing public expenditure will have to be an important element in addressing fiscal weaknesses and improving the efficiency and effectiveness of public spending.** The establishment of the Public Expenditure Commission is an important first step in formulating the actions needed to rationalize public expenditure in the ECCU. Key actions would include comprehensive civil service reform aimed at reducing the overall size of government and improving efficiency in the delivery of public services; the rationalization of statutory bodies; pension reform; and the strengthening public financial management. These reforms would also help to create some fiscal space to pursue growth-enhancing capital spending.

48. **Fiscal and debt sustainability in turn are intertwined with the stability of the ECCU banking system and the confidence in the currency peg.** As a result of large government exposures, some banks are facing significant challenges including tightening of liquidity. The possible impairment of government's payment capacity would not only create further liquidity problems, but also lead to solvency issues. While some governments have started with fiscal consolidation and are seeking ways to reduce banks' exposure to governments, others need to follow suit and the authorities need to change the public sector financing model in those countries that rely mostly on the banking system

49. **Safeguarding financial system stability calls for crisis preparedness and prompt actions including a preemptive resolution of weak banks.** Given the expected slow recovery of the ECCU economy and the lagged impact of the recession on loan quality, the banking system is likely to continue facing high liquidity and credit risk. The authorities are monitoring the liquidity conditions of banks closely and have strengthened the framework for contingency and crisis management and are reviewing options of a preemptive resolution of weak banks. However, there are concerns that headline NPLs and capital adequacy ratios may not fully reflect the state of the banking system. The cost of the resolution could therefore be significantly higher than currently envisaged by the authorities. The situation calls for bank specific diagnostics without delay. Any resolution strategy should minimize the fiscal cost through burden sharing and consider involving strong regional/international strategic partners.

50. **While some progress has been made in the resolution of BAICO, the risk of rising fiscal costs and a possible fallout from CLICO calls for a more decisive and stepped-up regional approach.** The authorities have defined a resolution strategy for BAICO, but there are concerns about the ability to raise the necessary capital; in the case of CLICO, a resolution strategy still needs to be defined. In both cases, the fiscal costs should be minimized and a closer coordination with Trinidad and Tobago and Barbados (the home supervisory authorities of BAICO and CLICO, respectively) is warranted.

51. **Regulation and supervision of the nonbank financial sector needs to be stepped up.** Despite progresses made so far, urgent priorities would include: completing the establishment of SRUs in the remaining countries; making further progress in enacting or harmonizing financial sector legislation covering insurance, credit union and money services; transferring supervisory responsibility systematically important credit unions to the ECCB, and strengthening the information exchange and collaboration between the ECCB, SRUs and other regulators. In the medium term, consideration should be given to the creation of a regional non-bank supervisory institution and in consolidating the number of smaller nonbank institutions.

52. **The REER appears broadly in line with current fundamentals, but the necessary fiscal adjustments will imply equilibrium REER depreciations in the near term.** Despite the fact that the REER is broadly in line with current fundamentals (based on standard CGER methodologies), the implementation of large fiscal adjustments going forward will require a REER depreciation. In light of the peg, this implies adjustments in relative prices and calls for constraints in real wage growth or even a reduction in nominal wages to facilitate the adjustment. Given the signaling effect, public sector wages should take the lead.

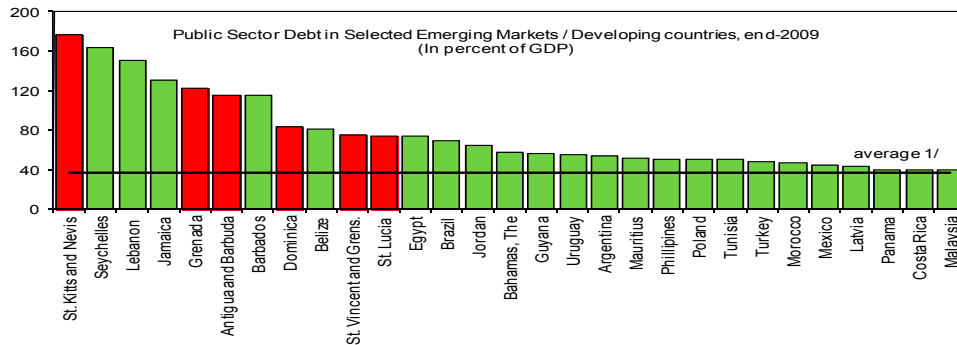
53. **Tourism remains a viable growth sector for the ECCU, but cost reductions are critical to ensure competitiveness.** Following the dismantling of trade preferences for agricultural products, growth has slowed significantly, but tourism has offset some of the decline and has been a key driver of growth. In addition to moving toward high-end tourism, the ECCU economies need to significantly reduce their cost structures to regain competitiveness. Although the ECCU has been hit hard by the recession in the United States, an active regional diversification strategy is not called for given the historically low output volatility of large and diversified advanced economies such as the United States.

54. **Further progress in capacity building is needed to improve policy analysis and implementation of necessary structural reforms.** This will require continued sizable support through technical assistance from IFIs, regional as well as development partners.

55. **It is proposed that the next discussion on ECCU common policies takes place in 12 months.**

Box 1. Public Debt in ECCU Countries

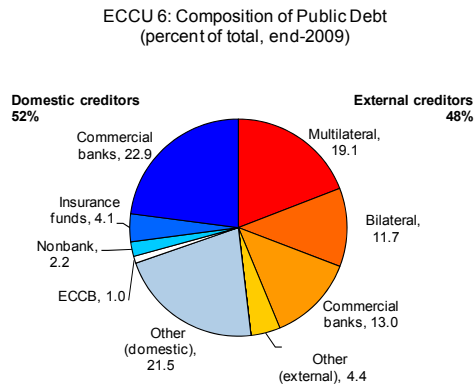
ECCU countries are among the most highly indebted in the world. All of the six independent ECCU countries rank within the 15 most indebted emerging markets and developing countries, of which three (Antigua and Barbuda, Grenada and St. Kitts and Nevis) have a public debt-to-GDP ratio of over 100 percent and all of the countries currently exceed the ECCU’s 2020 target of 60 percent of GDP.



Sources : IMF, World Economic Outlook; and Fund staff calculations. 1/ emerging and developing economies.

Roughly half of the regional debt is owed to external creditors (of which 19 percent is multilateral debt).

Reliance on domestic sources is high, particularly in Antigua and Barbuda (63 percent of total public debt) and St. Kitts and Nevis (66 percent). St. Vincent and the Grenadines’ share of domestic debt in total debt is in line with the regional average of about 50 percent.

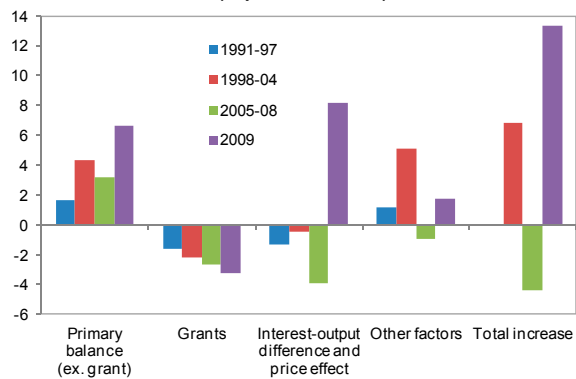


Source: Country authorities and IMF staff calculations

The aggregate public debt increased sharply in 1998–2004 and peaked at 112 percent of GDP in 2004. Central government primary deficits (excluding grants) played a major role in the rise in the debt ratio in ECCU countries, accounting for over half of the total increase during that period.

Significant contributions from the residual term, “other factors”, suggest that the public sector deficit is underestimated. This may reflect data limitation related to non government public sector operations (including off budget), and contingent liabilities such as the granting of guarantees to public corporation debt. Although debt-to-GDP ratios declined during 2005–08, there has been a significant surge in debt more recently. During 2005–08, the debt to GDP ratio declined by 17 percentage points. High growth and grants explain the result as primary deficits maintained a large contribution to debt and the residual “other factors” contribution was close to nil thanks to debt restructuring in Dominica and Grenada. With the global economic slowdown, fiscal balances deteriorated sharply in 2009, contributing to an increase in the debt ratios.

ECCU 6: Contribution to changes in public debt per year (in percent of GDP)



Box 2. Collapse of the CL Financial Group

The collapse of the Trinidad and Tobago-based CL Financial Group in January 2009 represents a major challenge to financial system stability in the ECCU. Two insurance subsidiaries of the Group—CLICO International Life Insurance Limited (CLICO), based in Barbados, and British American Insurance Company (BAICO), based in The Bahamas—had been selling deposit-like investment instruments throughout the ECCU in addition to traditional insurance products.

Both companies are financially stressed. Given the problems of BAICO, its operations in ECCU jurisdictions were placed under the control of judicial managers in July-August 2009. Their report, completed in October 2009, determined that BAICO is insolvent. CLICO is not current with payments on deposit-like instruments and on policy claims in some countries. Information on the state of CLICO's parent company in Barbados is still very limited, but the company has been seeking to divest assets to address its liquidity problems and urged investors not to cancel policies and withdraw their funds. In addition, the Barbadian authorities have prohibited the company from writing new policies, which prompted the ECCU authorities to follow suit.

The exposure of ECCU policy and deposit holders to the two companies amounts to about EC\$2 billion (17 percent of ECCU GDP). Commercial banks and related offshore banks account for EC\$127 million of this exposure or equivalent to about 8 percent of commercial banks' total capital, with exposure in a few commercial banks equivalent to a large share of their respective capital. The exposure of credit unions is EC\$84 million, and for some institutions is sufficiently large to threaten their solvency. State pension schemes have claims of EC\$140 million, less than 3 percent of their total assets, although in St. Vincent and the Grenadines the exposure is nearly one fifth of assets.

The ECCU governments have announced a regional strategy aimed at keeping BAICO as a going concern, while avoiding systemic risk and protecting as far as practicable the interest of depositors and investors. Governments plan to establish a new company to take over the ECCU operations of BAICO as recommended by the judicial managers (including the deposit-like liabilities and the traditional insurance business); to transfer the property insurance portfolio to an existing insurance company; and to establish a Medical Claims Support Fund. Discussions on establishing the new company are under way between potential strategic private investors and a Ministerial Subcommittee for Insurance. CARTAC is providing TA related to the creation of this new company.

Fund staff have recommend that the resolution of BAICO adhere to three principles: (i) limiting the risk of systemic spillovers; (ii) minimizing the fiscal costs to the extent possible, particularly given the region's high debt levels and related vulnerabilities; and (iii) ensuring equitable treatment of claimants, including giving priority to all claims up to a low threshold to protect vulnerable groups for equity considerations and for administrative simplicity. Finding sufficient funds to capitalize the new company will be a challenge. While it is almost certain that ECCU governments will need to inject capital, notwithstanding a US\$50 million contribution from Trinidad and Tobago's Petroleum Fund, fiscal costs should be limited through revision of existing terms, including lowering of interest rates, extension of tenor, and possible conversion of some liabilities into equity. The financial difficulties of CLICO Barbados are a significant concern, and staff has recommended that the authorities continue to monitor developments closely.

Box 2. Collapse of the CL Financial Group (Cont'd)

This experience with CL Financial has prompted ECCU authorities to accelerate their plans to strengthen supervision of the nonbank financial sector. Country experience shows that good supervision matters: the stronger framework Jamaica put in place after the crisis in the 1990s successfully insulated the country from the CL Financial crisis. Priority measures being taken in the ECCU include:

- Establishing single regulatory units (SRUs) for the nonbank financial sector with supporting legislation, adequate staffing, and capacity building. So far SRUs are only operational in Dominica and Grenada while legal frameworks exist or draft legislation has been prepared in most other ECCU jurisdictions.
- Enacting a new harmonized Insurance Act. New Insurance Acts have been passed in Antigua and Barbuda, Grenada, and St. Kitts and Nevis, and—in its first reading in St. Lucia—although amendments will be required to harmonize these.
- Requiring insurance companies to create statutory funds with sufficient assets under trusteeship to cover local insurance liabilities.
- Establishing a regional regulatory and supervisory institutional structure, with a College of Regulators to oversee regional financial institutions that span multiple jurisdictions. Also, the core technical committee, created to deal with the fallout from CL Financial could be converted into a permanent regional forum to deal with ECCU non-banking sector issues.

Estimated Exposure to CLICO and BAICO

| | Anguilla | Antigua and Barbuda | Dominica | Grenada | Montserrat | St. Kitts and Nevis | St. Lucia | St. Vincent and the Grenadines | ECCU |
|-----------------------------|----------|---------------------------|----------|---------|------------|---------------------------|-----------|--------------------------------------|--------|
| (In millions of EC dollars) | | | | | | | | | |
| Total | 89.2 | 504.4 | 194.9 | 404.3 | 87.9 | 256.8 | 188.3 | 384.8 | 2110.6 |
| Of which: Commercial banks | 45.7 | 0.0 | 37.4 | 7.2 | 25.7 | 5.3 | 0.0 | 5.4 | 126.7 |
| Credit unions | 0.0 | 8.8 | 27.9 | 9.4 | 6.6 | 6.4 | 0.0 | 24.7 | 83.8 |
| CLICO 1/ | 18.4 | 216.0 | 119.7 | 158.8 | 47.5 | 105.7 | 149.3 | 174.0 | 989.4 |
| Of which: Commercial banks | 17.0 | 0.0 | 37.4 | 0.0 | 21.9 | 1.5 | 0.0 | 5.4 | 83.2 |
| Credit unions | 0.0 | 1.9 | 14.7 | 2.6 | 0.0 | 0.0 | 0.0 | 8.3 | 27.5 |
| BAICO 2/ | 48.7 | 288.4 | 73.8 | 245.2 | 23.6 | 129.0 | 38.5 | 204.0 | 1051.3 |
| Of which: Commercial banks | 6.6 | 0.0 | 0.0 | 7.2 | 3.8 | 0.0 | 0.0 | 0.0 | 17.6 |
| Credit unions | 0.0 | 6.9 | 11.8 | 6.5 | 0.6 | 6.4 | 0.0 | 15.6 | 47.8 |
| Other 3/ | 22.1 | 0.0 | 1.4 | 0.3 | 16.8 | 22.1 | 0.5 | 6.8 | 70.0 |
| Of which: Commercial banks | 22.1 | 0.0 | 0.0 | 0.0 | 0.0 | 3.8 | 0.0 | 0.0 | 25.9 |
| Credit unions | 0.0 | 0.0 | 1.4 | 0.3 | 6.0 | 0.0 | 0.0 | 0.8 | 8.5 |
| (In percent of GDP) 4/ | | | | | | | | | |
| Total | 15.3 | 16.3 | 19.9 | 24.4 | 62.5 | 17.1 | 7.2 | 25.0 | 17.4 |
| CLICO 1/ | 3.2 | 7.0 | 12.2 | 9.6 | 33.8 | 7.0 | 5.7 | 11.3 | 8.2 |
| BAICO 2/ | 8.3 | 9.3 | 7.5 | 14.8 | 16.8 | 8.6 | 1.5 | 13.2 | 8.7 |
| Other 3/ | 3.8 | 0.0 | 0.1 | 0.0 | 11.9 | 1.5 | 0.0 | 0.4 | 0.6 |

Source: Data provided by country authorities.

1/ As of end-2008, except for Dominica, which is as of March 2010.

2/ As of end-June 2009, according to the November 2009 judicial managers' report.

3/ Includes Clico Investment Bank, CMMB, and the CL Financial Group.

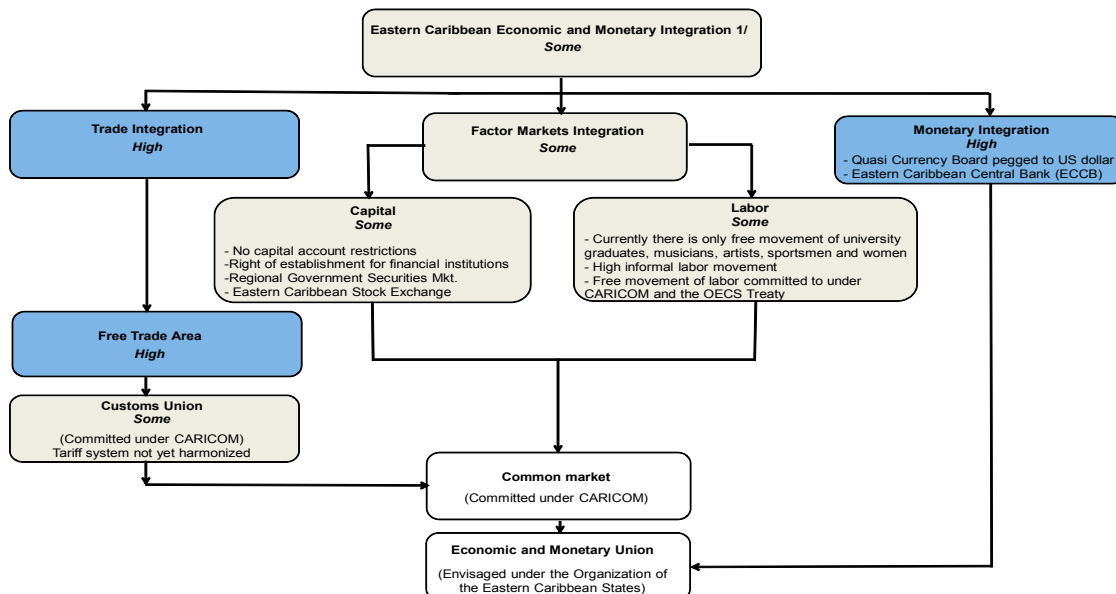
4/ GDP estimates for 2009.

Box 3. Moving Forward with the Establishment of an Economic and Monetary Union

While economic integration in the Eastern Caribbean has taken place on a number of different levels, the model of integration in the ECCU is determined by the region's common currency and quasi currency board. In addition to multilateral trade liberalization under the guidance of the WTO, significant strides have been made at the regional level, both in the context of CARICOM's Single Market and Economy Initiatives and efforts by the Organization of Eastern Caribbean States (OECS). The implementation of the revised Treaty of Basseterre, signed in June 2010 and to be ratified by the respective national Parliaments by January 2011—is the region's latest effort to foster the creation of a full-fledged Eastern Caribbean economic and monetary union. Among others, the Treaty transfers legislative authority in economic and financial matters to the OECS Authority, comprising Heads of government. The greatest benefits from economic integration in the Eastern Caribbean will come from economies of scale (rather than intraregional trade), risk sharing, rationalizing the provision of public services, eliminating duplication of administrative structures, and the ability to better represent the region in international fora. The Union Treaty covers the following areas: (i) common market, including customs union; (ii) monetary policy, (iii) trade policy; (iv) maritime jurisdiction and maritime boundaries; and (v) civil aviation. In particular, the new treaty requires that member states delegate legislative competence in these areas over member states' law. Still, the success of the common currency will critically depend on the region's ability to deepen regional frameworks to enforce fiscal discipline and to harmonize financial sector regulation and supervision. In this respect, integration differs from that of CARICOM in that it has to be deeper and faster.

Level of integration. In addition to the monetary union and a regional central bank (ECCB), the Eastern Caribbean is a free trade area, but still an incomplete customs union and common market. While the region is committed to a system of common external tariffs (CET), full harmonization has not taken place, given that this depends critically on alternative sources of revenue, including the implementation of a value-added tax. With an open financial account and the right of establishment for companies and financial institutions, capital markets and the financial sector are highly integrated. However, the free movement of labor (pursued at the CARCIOM level) has been limited to university trained persons and the informal sector.

Eastern Caribbean Economic and Monetary Union: Progress of Integration

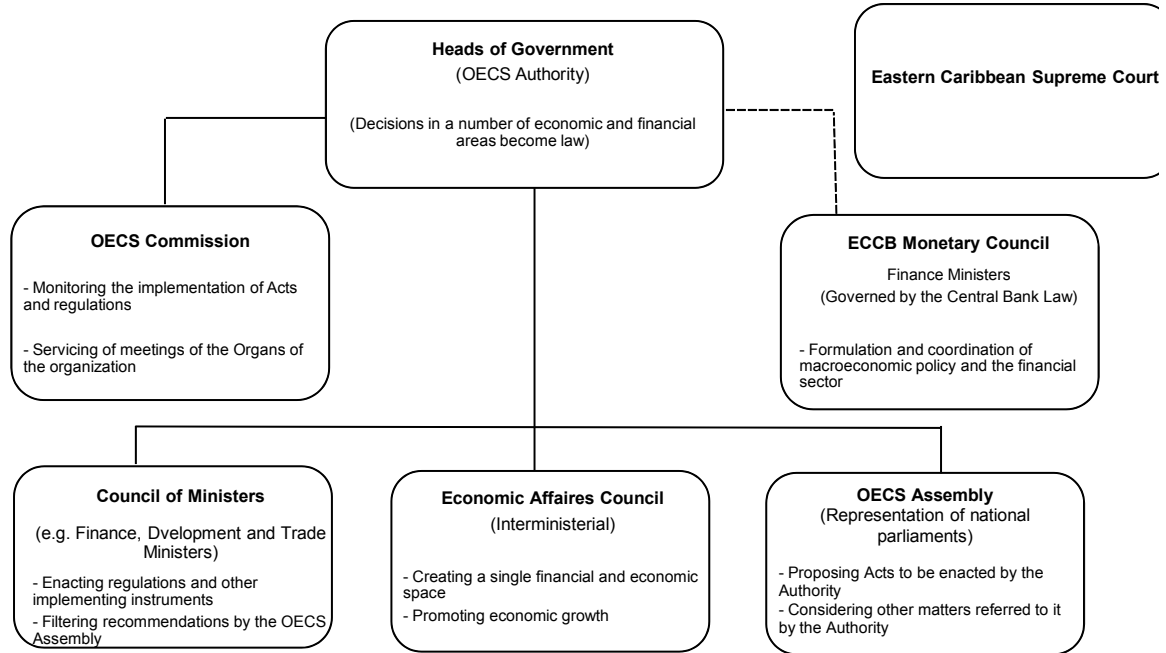


Source: Fund staff.

1/ The level of integration is classified as "committed" (white), "some" (light gray), and "high" (dark blue).

Box 3. Moving Forward with the Establishment of an Economic and Monetary Union (Cont'd)

Eastern Caribbean Economic and Monetary Union: Institutional Structure 1/



Source: Fund staff.

1/ This figure is illustrative and does not necessarily reflect the formal legal structure.

Box 4. Improving the Efficiency of Public Expenditure in the ECCU

Given the region's relatively high revenue-to-GDP ratios, efforts to create fiscal space would have to focus more on the expenditure side. Rationalizing government expenditures would not only generate fiscal savings, but also enhance the efficiency of government spending. The authorities have established a Public Expenditure Commission, supported by technical assistance from the Fiscal Affairs Department, to provide guidance on best practices and benchmarks and to seek the necessary political support. The following discusses selected expenditure issues in the region.

Government compensation and employment. On average, total compensation costs of civil servants account for about two-thirds of budgetary revenue in the ECCU countries. Given their relative size, reducing compensation expenditures will have to be a central element of the expenditure rationalization strategy. Some countries have imposed temporary wage and hiring freeze and outsourced certain functions to contain the wage bill in the short term. Over the medium-term, this issue needs to be addressed through a comprehensive civil service reform. Ongoing civil service censuses, payroll audits, and functional reviews of government departments across the region will help formulate such a reform strategy.

Capital spending. Over the last two decades, capital spending has seen the highest growth in the ECCU because entities involved in investment planning are not given clear budget constraints. This has led to an unfinanced list of projects and inefficient prioritization at the execution stage. Poor monitoring and insufficient ex-post evaluation has also undermined the efficiency of capital spending. These issues can be addressed by: defining and strictly enforcing selection criteria for investment projects, developing capacity for cost benefit analysis at the regional level, and strengthening and enforcing project monitoring procedures.

Social security. While most schemes in the region are currently operating in surplus, with an ageing population, most will begin to incur cash flow deficits and eventually exhaust reserves in the medium term. Low contribution rates and retirement ages, front loaded accrual rates, as well as limited diversification in reserve management, have contributed to a weakening of the financial position of these schemes. Some countries (Dominica, St. Lucia and St. Vincent and the Grenadines) have implemented parametric reforms to address the financial sustainability of these schemes. Others also need to move in this direction. The report of the Pension Commission will provide important guidance in this regard. There is also a need to reform the non-contributory civil service pension schemes.

Health and education spending. Although health spending currently accounts for about 3 percent of total government spending, population ageing and non-communicable chronic diseases are expected to put strong upward pressure on health spending in the medium term. In this context, cost controls need to be strengthened, including reviews of cost effectiveness, cost recovery and benefit packages. The education system has not yet adjusted to demographic changes and declining student-teacher ratios. This has resulted in high spending on wages, crowding out other important recurrent spending. Rationalizing the education workforce, reallocating spending more toward non-salary components and better targeting of subsidized educational programs could simultaneously contain costs and improve education outcomes.

Social assistance programs. The large number of uncoordinated programs implemented through different government agencies result in high start-up and administrative costs. Weak targeting and monitoring has also resulted in leakage to non-poor groups and undermined the efficiency of these programs. Reform options in this area include improving targeting mechanisms, strengthening monitoring and conditioning social assistance to actions that promote human capital development. Some countries have made progress in this area.

Statutory bodies. These entities are executing an increasing amount of spending in some countries, creating potential fiscal risk for the central government. Monitoring of their operations is weak, partly due to capacity constraints. Financial reporting by these entities is also deficient.

Public financial management (PFM). Effective expenditure rationalization will also require strengthening PFM systems. Recent diagnostic assessments have pointed to a number of weaknesses in budget formulation, execution and reporting. Key reforms include formalizing the budget preparation process to support a proper medium-term fiscal framework, centralizing all government resources in a single treasury account, and strengthening internal control.

Box 5. ECCU Banking Sector Sensitivity Analysis

While headlines numbers suggest that the ECCU banking system appears to be well capitalized, they are likely not to fully reflect potential risks. Banks' capital adequacy ratio (CAR) stood at 22 percent at end-2009, far exceeding the ECCB's 8 percent prudential requirement. However, there are concerns about potential under-provisioning, given banks' relatively low provisioning-to-NPL ratio, weak accounting practices by some banks, which could lead to understatements of the level of reported NPLs.

Liquidity indicators have deteriorated. As of end-2009, banks had net liquid assets equivalent to 20 percent of deposits, in line with the ECCB's 20–25 percent prudential requirement. However, this represents a 1.7 percentage points decline compared to end-2008.

On the basis of official data, staffs' analysis on banks reveal the need to address vulnerabilities relating to liquid and credit risks, as well as to manage foreign exchange risks.

Despite limited direct linkages across countries, there are significant risks of potential spillovers. Should an individual bank become insolvent, this could create difficulties in the payment system and deposits run leading to a loss of confidence in the banking system.

Box 6. ECCU Banking System: Crisis Preparedness and Management

It is possible to think of a number of events that would stress the banking system. A sovereign debt crisis triggered by the impact of a natural disaster on economic activity, a government default, or an overly aggressive sovereign debt restructuring could have an adverse impact on the banking system. Bank operational failure in itself could also quickly evolve into a systematic banking crisis as would contagion. Despite limited direct linkages among indigenous banks, spillovers in the ECCU could take place via a failure in the payments system, interbank exposure, and a general erosion of confidence. The possibility of easily switching deposits from indigenous banks to foreign banks can facilitate a deposit run. A widespread financial crisis in turn could lead to capital flight and threaten the exchange rate peg to the U.S. dollar.

The ECCB is in the process of strengthening its framework for contingency and crisis management. It has established a group to develop a contingency plan for troubled banks. However, it will be important to clearly establish and formalize powers and responsibilities of governments and various agencies (ECCB, Single Regulatory Units (SRU), Eastern Caribbean Securities Regulatory Commission (ECSRC) during a crisis through MOUs and legislation. An MOU executed by members of the Regulatory Oversight Committee establishes information exchange rules and responsibilities for ongoing monitoring. Previous interventions (Bank of Montserrat, 1991; and most recently the Bank of Antigua, 2009) have shown the ability of the authorities to intervene effectively within the existing bank resolution framework set out in Part IIA of the Eastern Caribbean Central Bank Agreement 1983 (as amended).

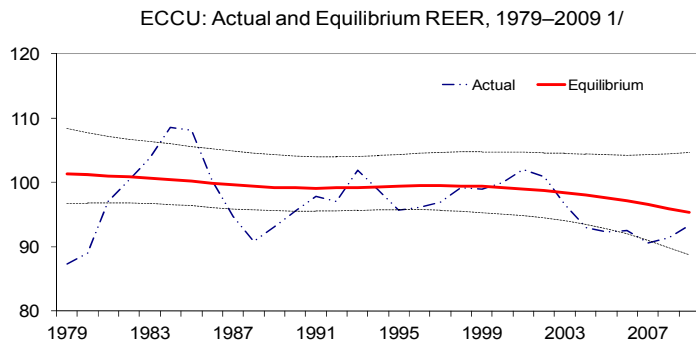
Further enhance contingency planning frameworks is needed by strengthening the monitoring capacity for early detection and prevention of bank stress. Based on best international practice, the ECCU should:

- **Adopt a comprehensive response.** International experiences widely show that piecemeal responses tend to fuel panic and—underestimating the size of problem—may increase eventual costs.
- **Secure liquidity support.** As a first pass, the 2009 IMF SDR allocations should be held as an additional and shared liquidity buffer. In addition, consider seeking official or private arrangements in advance for liquidity support from abroad (for example, Canadian or regional banks, other central banks, and IFIs).
- **Continue to garner political support.** Secure a quick consensus and effective cooperation among the ECCU authorities. The availability of modern technology has enabled the Monetary Council to convene at short notice. This is particularly crucial as an ECCB intervention requires directives from the ECCB Monetary Council, comprised of eight finance ministers from the participating governments.
- **Ensure an adequate communication policy.** A good communication strategy with sufficient information disclosure and the announcement of a comprehensive strategy is critical. Since time is of essence and a crisis puts significant strain on resources, it is prudent to have draft announcements ready to be adopted in the event of a crisis.

Box 7. Exchange Rate Assessment

The ECCU real exchange rate appears broadly aligned with fundamentals, but required fiscal adjustments need to be accompanied by REER depreciations in the near future.

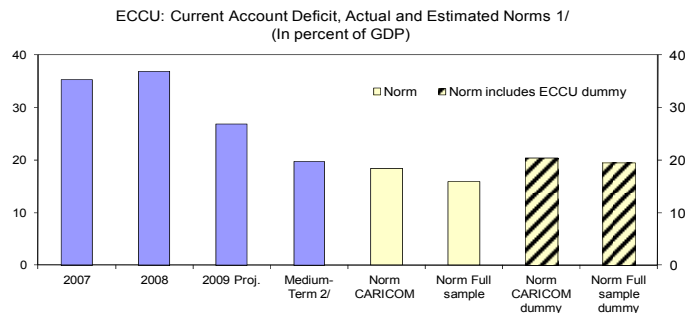
The real effective exchange rate (REER) has appreciated since 2007, but remains slightly below its equilibrium level under current fundamentals. The recent appreciation reflects a stronger US dollar and higher relative inflation rates following the 2008 spike in food and oil prices. Despite the recent appreciation, estimates of the equilibrium real exchange rate (ERER) approach—which takes into account productivity differentials, terms of trade shocks, government consumption, and net foreign assets—indicate that the EC dollar is about 2 percent below its fundamentals-based equilibrium value. However, going forward, both fiscal adjustments and lower NFA will have an impact on the ERER. A decline of government consumption by 1 percent of GDP would reduce the ERER by 0.4 percentage points, while reductions in NFA are less pronounced. Taking required future policies into consideration, the ERER will therefore depreciate.



Sources: IMF, Information Notice System; and Pineda and Cashin, "Assessing Exchange Rate Competitiveness in the ECCU," forthcoming IMF Working Paper.
1/ The dotted lines around the equilibrium exchange rate represent 90 percent confidence intervals of the prediction.

While projections of the ECCU's medium-term current account deficit are within 3 percentage points of GDP from the estimated current account norm, Fund recommended fiscal adjustment would suggest a larger deviation. The assessment is based on the macro balance approach, which contrasts a regression-based estimate of the current account norm with staff projections based on ECCU's current policies.^{1/2/} Depending on the sample size, the estimated norm ranges between -17 and -20 percent of GDP. Meanwhile, staff projects a medium-term current account deficit for the ECCU around 19 percent of GDP.

With the additional fiscal adjustment suggested by staff, the equilibrium current account deficit (norm) would be lower implying a depreciation of the equilibrium REER and—in light of the peg—requiring an adjustment in relative prices. Due to the signaling effect of public wages in the ECCU, staff urged the authorities to moderate real wage growth or even consider lowering nominal wages.



Sources: Fund staff estimates and projections.
1/ In computing the norms, medium-term values of the fiscal balance, oil-balance, output growth, and relative income are drawn from staff projections. Band is ± 1 standard error of the prediction. CARICOM sample includes ECCU countries and The Bahamas, Barbados, Belize, and Jamaica. Full sample includes 24 tourism-dependent economies as defined by Bayoumi and others (2005).
2/ Based on Fund staff estimates. Medium-term is 2014.

^{1/} Details on the econometric approaches and sample coverage can be found on Pineda, Cashin, and Sun (2009), "Assessing Exchange Rate Competitiveness in the Eastern Caribbean Currency Union," IMF WP/09/78.

^{2/} Given data deficiencies, the external sustainability approach is not applied.

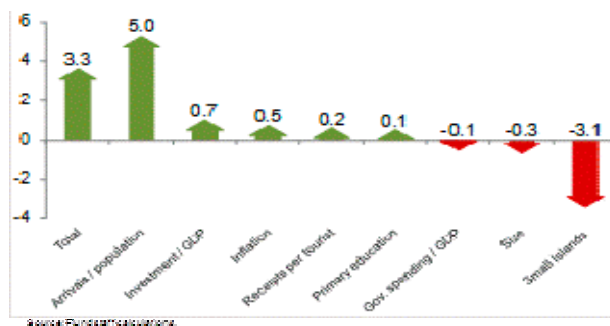
Box 8. Growth in the ECCU

Growth in the ECCU countries has been on a declining trend since the 1990s, with the current global slowdown exacerbating this trend. The ECCU region has been buffeted by a series of adverse exogenous shocks over time, including the erosion of trade preferences; the decline in official foreign assistance; periodic recessions in the developed countries, the main source of tourism and FDI for the region; and frequent natural disasters. The recent global slowdown has exacerbated the already declining trend in growth. At the same time, relaxation of the fiscal stance, partly reflecting accommodation to these shocks, has led to a rapid build-up of public debt in the region. The main results of the study are:

- **Low factor productivity has been the main factor dragging growth down.** Following strong productivity growth in the 1970s and 1980s, TFP growth declined leading to a decline in growth despite strong capital accumulation. While difficult to point to specific factors, the decline in TFP could reflect a drop in efficiency with which others factors of production are being used perhaps due to lack of complimentary structural framework, weak institutions and lack of technological innovation.

- **Tourism has contributed positively to economic growth.** Panel regressions using an augmented growth equation that includes tourism in addition to the standard growth determinants such as education, health, openness of the economy and prudential fiscal policy indicate that tourism has been a significant factor in long-term growth in the ECCU countries.

ECCU: Relative Performance vis-à-vis the World
(In percent)



- **Improvements in competitiveness could further enhance the contribution of the tourism sector.** ECCU countries appear to have lost some market share in tourism. The share of stay-over arrivals in the Caribbean (as percent of total visitors in the world) fell from 2.7 percent during 1990–95 to 2.2 percent during 2005–08. Moreover, ECCU countries' share within the Caribbean fell from 5.7 percent to 5.1 percent over the same period, in particular because of the decline in shares by Antigua and Barbuda and Grenada. The rest of the ECCU countries have either gained by small margins or maintained their shares.

- **High debt has reduced growth in the ECCU.** Empirical evidence for the ECCU countries suggests that during periods of declining debt (even though debt levels were high) average growth rates almost doubled compared to periods when debt was high and rising, suggesting that debt crowds out of private investment, and acts as a tax on future investment.

ECCU: Average Market Shares in Stay-over Arrivals

| | 1990-95 | 2005-08 | % change |
|----------------------------------|---------|---------|----------|
| Share to Caribbean total: | | | |
| Anguilla | 0.30 | 0.36 | 19.46 |
| Antigua and Barbuda | 1.85 | 1.33 | -28.05 |
| Dominica | 0.41 | 0.42 | 1.46 |
| Grenada | 0.76 | 0.61 | -19.33 |
| St Kitts | 0.68 | 0.70 | 2.62 |
| St Lucia | 1.51 | 1.56 | 3.10 |
| St Vincent and the Grenadines | 0.45 | 0.48 | 5.93 |
| ECCU | 5.66 | 5.09 | -10.01 |
| Share to the World: | | | |
| ECCU | 0.14 | 0.11 | -21.95 |
| Caribbean | 2.67 | 2.24 | -16.30 |

Source: World Travel and Tourism Council; and Fund staff calculations

Box 9. ECCU: Technical Assistance from the Fund in 2009 and 2010

The ECCU has been an intensive user of CARTAC (backstopped by the Fund) and Fund technical assistance (TA). The following major support has been provided or is envisioned in 2009–10:

Tax and customs reform: Post value-added tax (VAT) support in Antigua and Barbuda, Dominica, Grenada, and St. Vincent and the Grenadines to strengthen VAT implementation and assistance with near-term implementation of VAT in St. Kitts and Nevis, and St. Lucia (CARTAC, FAD, LEG). A comprehensive revenue mobilization TA to Antigua and Barbuda; assistance with custom reforms and modernization in all ECCU countries; and strengthening tax administration training provided to Grenada, St. Kitts and Nevis, and St. Vincent and the Grenadines (all CARTAC).

Macro-Fiscal: assistance to ECCU members to establish macro-fiscal policy units to house the financial programming exercise; support for public sector pension plan reform in Montserrat; and public pension reform conference delivered jointly with the ECCB in June 2009 (all CARTAC).

Public expenditure: TA on options for public expenditure rationalization completed in St. Lucia and Antigua and Barbuda and to be implemented in all ECCU countries by end 2010, recommendations would be key inputs for the ECCU Public Expenditure Commission (FAD).

Public debt management: Assistance to strengthen debt management capacity and develop medium-term debt strategy has been provided to St. Lucia and St. Kitts and Nevis in 2008, Dominica in 2009, and Grenada in 2010 (MCM).

Public finance management: PEFA assessment finalized in Montserrat and delivered in Antigua and Barbuda; PFM reform action plan updated in Dominica, Grenada and St. Lucia, and implemented in St. Vincent and the Grenadines (all CARTAC). Extensive implementation of TA to Antigua and Barbuda (CARTAC and DFID). Strategic budgeting to Cabinet and Permanent Secretaries in Antigua and Barbuda (CARTAC, CARICAD, and Financial Secretary of Dominica)

Regional financial and capital market: Assistance to facilitate the establishment of an overnight repo facility and the functioning of the interbank market; payments and settlements (both MCM); assistance for review and preparation of new securities regulations (CARTAC).

Financial sector supervision: Ongoing assistance (since 2003) to ECCU member countries in the development of Single Regulatory Units (SRUs) based on the specific needs of each SRU; nonbank regulatory reporting forms created and nonbanks are to begin reporting on these forms quarterly in September 2010; revision of insurance laws and designing of regulatory insurance reporting forms; development of law, and training for the supervision of credit unions; development of credit bureaus in the region; on-site examination and development of capital requirement for international banks in St. Vincent and the Grenadines; on-site examination of insurance companies in Anguilla; first College of Regulators held for two large regional insurance companies; and assistance in the restructuring of BAICO in the ECCU (all CARTAC). Ongoing development of a regional financial stability framework (CCMF/CARICOM/CARTAC).

Economic and financial statistics: Ongoing assistance in rebasing national accounts (completed in most ECCU countries); compiling supply and use tables; rebasing and revising consumer price index based on the recent Household Expenditure Surveys; and developing export-import price indexes in all ECCU countries (all CARTAC); assistance in the development of tourism satellite accounts (CARTAC; CARICOM Secretariat; CDB; and OECS Secretariat); provided monetary and financial statistics (MFS) TA to the ECCB and assistance in the development of a regional statistics network (STA).

Balance of payments statistics: Ongoing assistance in revising forms for compiling external sector statistics, in particular to implement the Balance of Payments and Investment Position Manual (BPM6) in 2009 (CARTAC; OECS Secretariat; STA).

Box 10. Features of the Rebased GDP and Revised CPI

The national accounts series of the ECCU member states have been rebased to base year 2006 from base year 1990.¹ The rebasing has improved the current and constant price GDP series by using a wider range of data sources (including economic surveys and administrative data), applying improved methodology, and better extrapolation and deflation techniques for the GDP constant price series. The rebased GDP series reflect the inclusion of financial intermediation services indirectly measured, activities of offshore universities, and the output of owner-occupied housing.

Based on the data available, the rebased current and constant price GDP series in the ECCU are expected to be appreciably larger than their old counterparts. For countries for which the exercise has been completed, preliminary data suggest increases in nominal GDP series of between [20 and 35 percent]. For example, the current price annual GDP in Dominica over the period 2000–2008 has been revised up by 32.6 percent. In constant prices, the average annual GDP revision is 2.9 percent (2001–2008) with the new base year, and 1.0 percent under the 1990 base year. The rebased GDP values will alter key ratios, e.g. the public debt-to-GDP ratios and the gross external debt-to-GDP ratios in the ECCU economies, with nontrivial implications for economic policies. In this context, on the current debt target of 60 percent of GDP by 2020, while it is sufficiently ambitious given the high debt levels, the mission recommended the authorities to consider moving towards a debt ratio of 25–40 percent of GDP that is more commensurate for emerging markets and countries with a hard peg in the medium term. In addition to the aggregate series, the relative contributions of industries in the rebased GDP will also change. Real estate, renting, and business activities will likely record the largest revisions due to the incorporation of estimates for owner owned housing.

Using the results from Household Income and Expenditure Surveys, the ECCU member states have updated the market basket for the CPI. They have also improved the classification structure, methods, and procedures used to compile the CPI in line with the *CPI Manual, 2004*. The revised CPIs will make the measurement of inflation more accurate and allow for greater comparability across the region.

Due to expanded geographic coverage, the revised CPI is more representative of the entire counties, not just the capital city areas. Adding college tuition, cell phones, MP3 players, computers, and health and auto insurance to the CPI basket reflects both updated spending patterns and newly introduced products. Old regional classification structures have been replaced by adopting the Classification of Individual Consumption by Purpose, the international standard recommended in the *CPI Manual, 2004*. The revised CPI has been made conceptually consistent with the *System of National Accounts* by incorporating the owner's equivalent rent. To reduce the biases that result from arithmetic averages of prices and arithmetic averages of price relative biases, the revised CPI is compiled using geometric rather than arithmetic averaging. In addition, missing prices are now imputed by using the price changes of related products and not by carrying forward the last reported prices, as in the old index.

Both the rebased GDP and CPI series are expected to be announced simultaneously in all of the ECCU countries via a comprehensive outreach strategy in October 2010. The ECCU members have received substantial technical assistance from CARTAC in the process of the GDP and CPI revisions. CARTAC helped each country develop their market basket and introduce the Price Index Processor System software that will enable the statistical offices to implement the improved methods described in the *CPI Manual*.

Table 1. ECCU: Selected Economic and Financial Indicators, 2005–11 1/

| | 2005 | 2006 | 2007 | 2008 | Prel. 2009 | Proj. | |
|----------------------------------------------------------------------------------|-------|-------|-------|-------|---------------|-------|-------|
| | | | | | | 2010 | 2011 |
| (Annual percentage change) | | | | | | | |
| National income and prices | | | | | | | |
| Real GDP | 5.4 | 6.6 | 5.6 | 1.9 | -6.2 | -0.4 | 1.5 |
| GDP deflator | 3.4 | 2.7 | 3.0 | 4.7 | 1.8 | 2.3 | 2.1 |
| Consumer prices, average | 3.2 | 4.0 | 3.3 | 6.7 | 0.8 | 2.3 | 2.1 |
| Monetary sector | | | | | | | |
| Liabilities to the private sector (M2) | 8.4 | 11.6 | 9.7 | 9.0 | 1.9 | 0.8 | 2.9 |
| (Annual change, in percent of M2 at the beginning of the year) | | | | | | | |
| Net foreign assets | 1.2 | 2.0 | -1.5 | -6.8 | -2.9 | -0.4 | -0.7 |
| Net domestic assets | 7.2 | 9.6 | 11.2 | 15.8 | 4.8 | 1.2 | 3.6 |
| <i>Of which</i> | | | | | | | |
| Private sector credit | 9.2 | 14.6 | 17.3 | 14.3 | 2.3 | 2.9 | 4.2 |
| Credit to central government | 2.0 | -0.2 | 2.3 | 1.6 | 1.9 | 0.6 | -0.2 |
| (In percent of GDP) | | | | | | | |
| Public sector | | | | | | | |
| Primary central government balance | -0.5 | -1.2 | -0.4 | -0.2 | -3.6 | -2.1 | 0.3 |
| Overall central government balance | -4.3 | -5.1 | -4.0 | -3.6 | -8.3 | -6.6 | -4.2 |
| Total revenue and grants | 30.1 | 31.2 | 30.6 | 31.5 | 31.0 | 31.7 | 31.2 |
| Total expenditure and net lending | 34.3 | 36.3 | 34.6 | 35.1 | 39.3 | 38.3 | 35.4 |
| Foreign financing | -2.0 | 2.0 | 0.8 | 0.8 | 3.8 | 4.3 | 1.4 |
| Domestic financing including arrears | 2.6 | 6.2 | 3.7 | 3.3 | 4.7 | 2.4 | 2.8 |
| Central government current account balance | 0.6 | 1.6 | 2.6 | 1.7 | -2.8 | -2.0 | 0.4 |
| Total public debt (end-of-period) | 100.5 | 97.9 | 91.1 | 89.2 | 103.1 | 108.0 | 109.1 |
| (Annual percentage change) | | | | | | | |
| External sector | | | | | | | |
| Exports, f.o.b. | 8.0 | -2.5 | 4.8 | 23.7 | -9.8 | 1.3 | 3.9 |
| Imports, f.o.b. | 17.6 | 18.7 | 11.7 | 10.4 | -25.3 | 0.9 | -0.1 |
| Stayover visitors | 1.3 | 2.8 | -1.9 | -0.3 | -11.9 | ... | ... |
| Nominal effective exchange rate 2/ (1990 =100) end-of-period (depreciation -) | -0.4 | 0.1 | -2.0 | -1.0 | 2.7 | ... | ... |
| Real effective exchange rate 2/ (1990 =100) end-of-period (depreciation -) | -0.9 | 0.1 | -2.2 | 1.0 | 2.0 | ... | ... |
| Terms of trade 2/ | -4.4 | -10.9 | -5.2 | -17.2 | 23.2 | ... | ... |
| (In percent of GDP) | | | | | | | |
| External current account balance | -22.5 | -30.9 | -35.4 | -36.9 | -26.7 | -25.4 | -22.5 |
| Trade balance | -40.2 | -45.3 | -46.8 | -47.6 | -35.8 | -35.4 | -33.8 |
| Services, incomes and transfers | 17.8 | 14.4 | 11.4 | 10.7 | 9.0 | 10.0 | 11.2 |
| <i>Of which</i> | | | | | | | |
| Travel | 26.8 | 24.3 | 22.5 | 20.4 | 19.3 | 20.0 | 20.8 |
| Capital and financial accounts 3/ | 22.0 | 33.1 | 36.4 | 36.5 | 27.0 | 23.7 | 20.9 |
| <i>Of which</i> | | | | | | | |
| Foreign direct investment | 17.3 | 26.3 | 26.9 | 21.0 | 16.4 | 15.0 | 15.0 |
| External public debt (end-of period) | 53.9 | 50.8 | 46.0 | 44.0 | 49.8 | 54.4 | 54.5 |
| External debt service, in percent of goods and nonfactor services | 15.7 | 8.6 | 10.6 | 9.7 | 10.3 | 12.4 | 11.2 |
| <i>Of which</i> | | | | | | | |
| Interest | 4.1 | 4.5 | 4.3 | 3.8 | 4.7 | 4.9 | 4.9 |
| End-year gross foreign reserves of the ECCB | | | | | | | |
| In millions of U.S. dollars | 600.8 | 696.0 | 764.5 | 759.0 | 800.8 | 760.8 | 720.6 |
| In months of imports | 3.9 | 3.8 | 3.7 | 3.4 | 4.7 | 4.5 | 4.2 |
| In percent of broad money | 17.9 | 18.6 | 18.6 | 17.0 | 17.6 | 16.5 | 15.2 |
| Currency backing ratio, in percent 4/ | 96.5 | 98.7 | 100.1 | 102.0 | 95.6 | ... | ... |
| Holdings of SDRs, in millions of U.S. dollars 5/ | ... | ... | ... | ... | 93.7 | 81.7 | 81.7 |

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 as sum of individual country data; ratios to GDP are then calculated by dividing this sum by the aggregated GDP.

2/ Excludes Anguilla and Montserrat.

3/ Includes errors and omissions.

4/ ECCB's foreign assets as a ratio of its demand liabilities.

5/ SDR allocation of US\$ 93.7 million (SDR 59.9 million) implemented in 2009.

Table 2. ECCU: Selected Economic Indicators by Country, 2005–15

| | 2005 | 2006 | 2007 | 2008 | Prel. | Proj. | | | | | |
|------------------------------------|-----------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | | | | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| | (Annual percentage change) | | | | | | | | | | |
| Real GDP (ECCU-8) | 5.4 | 6.6 | 5.6 | 1.9 | -6.2 | -0.4 | 1.5 | 2.8 | 3.4 | 3.7 | 3.7 |
| Anguilla | 10.7 | 20.1 | 24.5 | 4.5 | -24.0 | -5.0 | 0.0 | 3.0 | 4.0 | 4.5 | 4.5 |
| Antigua and Barbuda | 5.0 | 12.9 | 6.5 | 1.8 | -7.0 | -2.0 | 0.8 | 2.5 | 3.8 | 4.2 | 4.4 |
| Dominica | 3.3 | 4.8 | 2.5 | 3.2 | -0.3 | 1.4 | 2.5 | 3.0 | 3.0 | 3.0 | 3.0 |
| Grenada | 11.0 | -2.3 | 4.9 | 2.2 | -7.7 | 0.8 | 2.0 | 3.0 | 3.5 | 4.0 | 4.0 |
| Montserrat | -0.3 | -4.0 | 2.9 | 5.4 | 1.1 | 1.8 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| St. Kitts and Nevis | 5.2 | 2.6 | 4.2 | 4.6 | -5.5 | -1.5 | 0.5 | 1.5 | 2.0 | 2.0 | 2.0 |
| St. Lucia | 4.4 | 4.8 | 1.5 | 0.7 | -5.2 | 1.1 | 2.3 | 3.5 | 3.8 | 3.8 | 3.8 |
| St. Vincent and the Grenadines | 2.6 | 7.6 | 8.0 | -0.6 | -1.0 | 0.5 | 2.0 | 2.5 | 3.0 | 3.5 | 3.5 |
| CPI (end of period) | 4.2 | 2.8 | 5.8 | 4.2 | 0.7 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 |
| Anguilla | 3.3 | 10.4 | 3.3 | 5.3 | -0.8 | 1.0 | 1.0 | 2.2 | 2.2 | 2.2 | 2.2 |
| Antigua and Barbuda | 2.5 | 0.0 | 5.2 | 0.7 | 2.4 | 1.5 | 2.1 | 2.1 | 2.2 | 2.2 | 2.0 |
| Dominica | 2.7 | 1.8 | 6.0 | 2.1 | 3.2 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Grenada | 6.2 | 1.7 | 7.4 | 5.2 | -2.4 | 4.7 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Montserrat | 2.9 | 1.0 | 4.0 | 4.5 | 2.5 | 3.0 | 2.5 | 2.5 | 2.0 | 2.0 | 2.0 |
| St. Kitts and Nevis | 6.0 | 7.9 | 2.1 | 7.6 | 1.0 | 2.2 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| St. Lucia | 4.5 | 1.4 | 6.6 | 3.8 | 1.0 | 1.9 | 2.1 | 2.1 | 2.1 | 2.2 | 2.2 |
| St. Vincent and the Grenadines | 3.8 | 4.8 | 8.3 | 8.7 | -1.6 | 1.9 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 |
| CPI (period average) | 3.2 | 4.0 | 3.3 | 6.7 | 0.8 | 2.3 | 2.1 | 2.2 | 2.2 | 2.2 | 2.2 |
| Anguilla | 4.6 | 8.4 | 5.2 | 4.3 | 2.2 | 0.1 | 1.0 | 1.6 | 2.2 | 2.2 | 2.2 |
| Antigua and Barbuda | 2.1 | 1.8 | 1.4 | 5.3 | 1.0 | 3.0 | 1.6 | 2.1 | 2.2 | 2.2 | 2.0 |
| Dominica | 1.6 | 2.6 | 3.2 | 6.4 | 0.0 | 2.3 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Grenada | 3.5 | 4.2 | 3.9 | 8.0 | -0.3 | 3.6 | 1.9 | 2.0 | 2.0 | 2.0 | 2.0 |
| Montserrat | 2.7 | 1.9 | 2.7 | 4.9 | 2.8 | 2.7 | 2.7 | 2.5 | 2.2 | 2.0 | 2.0 |
| St. Kitts and Nevis | 3.4 | 8.5 | 4.5 | 5.4 | 1.9 | 2.5 | 2.4 | 2.5 | 2.5 | 2.5 | 2.5 |
| St. Lucia | 3.9 | 4.1 | 2.2 | 7.2 | 0.6 | 1.7 | 2.5 | 2.1 | 2.1 | 2.2 | 2.2 |
| St. Vincent and the Grenadines | 3.7 | 3.1 | 6.9 | 10.1 | 0.4 | 1.2 | 2.8 | 2.9 | 2.9 | 2.9 | 2.9 |
| Private sector credit | 11.7 | 18.0 | 20.1 | 15.2 | 2.3 | 2.9 | 4.1 | 5.8 | 6.7 | 7.6 | 7.6 |
| Anguilla | 19.0 | 18.7 | 35.2 | 17.3 | 3.1 | 5.5 | 5.0 | 4.1 | 5.6 | 6.1 | 6.1 |
| Antigua and Barbuda | 10.4 | 23.7 | 13.8 | 5.2 | 2.9 | 3.6 | 6.8 | 6.8 | 7.6 | 7.7 | 7.7 |
| Dominica | 6.0 | 10.9 | 4.9 | 8.3 | 6.9 | 8.0 | 7.1 | 13.4 | 11.4 | 11.8 | 11.2 |
| Grenada | 8.3 | 11.5 | 14.7 | 12.0 | 4.5 | 5.9 | 10.7 | 10.7 | 13.0 | 13.1 | 12.0 |
| Montserrat | 14.5 | 19.8 | 20.3 | 14.1 | 15.2 | 10.1 | 9.7 | 9.7 | 9.2 | 9.2 | 9.2 |
| St. Kitts and Nevis | 7.9 | 11.5 | 11.9 | 5.9 | 4.2 | 1.2 | 3.0 | 4.0 | 4.6 | 4.6 | 4.6 |
| St. Lucia | 16.2 | 24.5 | 29.5 | 19.1 | 1.8 | 1.2 | 2.9 | 4.4 | 4.6 | 4.6 | 4.7 |
| St. Vincent and the Grenadines | 2.3 | 13.8 | 14.1 | 3.0 | 1.8 | 6.0 | 8.1 | 7.9 | 6.2 | 6.2 | 6.1 |
| | (Percentage growth compared to M2 at the beginning of the year) | | | | | | | | | | |
| Net credit to public sector | 2.5 | -1.5 | 0.8 | 1.4 | 2.3 | -2.8 | -0.6 | -0.1 | -0.4 | -0.9 | -1.5 |
| Anguilla | 0.7 | -4.4 | 0.9 | 0.3 | 3.1 | -0.4 | 2.4 | 3.3 | 3.1 | 1.8 | 1.1 |
| Antigua and Barbuda | -1.2 | 2.8 | 0.9 | 0.3 | 10.7 | -3.3 | -3.3 | -2.1 | -1.9 | -1.8 | -1.8 |
| Dominica | -1.1 | -8.8 | -3.2 | -0.3 | -1.6 | -2.9 | 0.6 | -1.9 | -0.4 | -0.8 | -1.2 |
| Grenada | -0.8 | -0.3 | 1.5 | 1.0 | -1.8 | 1.2 | 0.0 | 0.6 | 0.0 | 0.0 | 0.0 |
| Montserrat | 7.8 | 2.9 | 2.3 | 4.3 | -6.0 | 0.7 | 2.9 | 3.1 | 1.6 | 1.2 | 0.6 |
| St. Kitts and Nevis | 8.5 | 5.8 | 0.1 | -1.7 | -19.7 | 18.8 | -2.3 | 0.2 | -0.3 | -1.1 | -1.3 |
| St. Lucia | 3.2 | 3.1 | -20.8 | 4.6 | 0.0 | 1.2 | -0.4 | -0.5 | -0.2 | -0.5 | -0.3 |
| St. Vincent and the Grenadines | 7.0 | 0.1 | 2.7 | 2.3 | 2.5 | -2.6 | 3.2 | 1.4 | 1.8 | 1.5 | 1.3 |

Sources: Country authorities; and Fund staff estimates.

Table 3. ECCU: Selected Central Government Fiscal Indicators by Country, 2005–15 1/

(In percent of GDP)

| | 2005 | 2006 | 2007 | 2008 | Prel. 2009 | Proj. | | | | | |
|----------------------------------------------------------|-------------|-------------|-------------|-------------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | | | | | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| Total revenues and grants | 30.1 | 31.2 | 30.6 | 31.5 | 31.0 | 31.7 | 31.2 | 30.9 | 30.8 | 30.8 | 30.7 |
| Anguilla | 28.6 | 33.3 | 28.9 | 28.5 | 25.4 | 26.3 | 26.6 | 27.3 | 27.4 | 27.4 | 27.4 |
| Antigua and Barbuda | 22.8 | 25.0 | 24.3 | 23.9 | 19.7 | 26.5 | 25.7 | 25.7 | 25.7 | 25.7 | 25.7 |
| Dominica | 39.0 | 40.2 | 44.7 | 46.2 | 46.9 | 43.9 | 42.8 | 42.5 | 41.3 | 41.3 | 41.2 |
| Grenada | 34.5 | 33.6 | 27.1 | 29.4 | 28.5 | 28.2 | 28.3 | 28.7 | 29.0 | 29.3 | 29.2 |
| Montserrat | 73.9 | 81.0 | 89.6 | 87.4 | 99.7 | 82.7 | 81.6 | 82.5 | 80.5 | 78.5 | 77.2 |
| St. Kitts and Nevis | 39.4 | 39.6 | 39.4 | 37.2 | 40.4 | 31.5 | 32.8 | 32.8 | 32.7 | 32.7 | 32.6 |
| St. Lucia | 25.2 | 26.7 | 28.3 | 29.9 | 29.7 | 31.7 | 31.1 | 29.4 | 29.4 | 29.4 | 29.4 |
| St. Vincent and the Grenadines | 29.5 | 30.1 | 31.0 | 34.6 | 35.0 | 35.0 | 33.1 | 33.1 | 33.2 | 33.2 | 33.2 |
| Current expenditure | 25.7 | 25.9 | 25.6 | 26.6 | 29.9 | 30.0 | 28.3 | 28.1 | 27.8 | 27.9 | 27.9 |
| Anguilla | 23.1 | 24.6 | 23.0 | 26.4 | 34.7 | 32.2 | 25.7 | 25.7 | 25.2 | 25.3 | 25.3 |
| Antigua and Barbuda | 24.4 | 25.4 | 24.2 | 23.8 | 29.5 | 25.9 | 24.3 | 23.5 | 22.8 | 22.4 | 22.3 |
| Dominica | 28.9 | 26.7 | 28.3 | 29.3 | 30.0 | 29.7 | 29.1 | 29.4 | 29.3 | 29.3 | 29.4 |
| Grenada | 20.3 | 20.9 | 21.4 | 22.8 | 25.6 | 23.5 | 22.5 | 22.0 | 21.4 | 21.2 | 20.6 |
| Montserrat | 67.6 | 68.8 | 74.1 | 71.2 | 69.2 | 69.1 | 69.2 | 69.4 | 69.5 | 69.6 | 69.7 |
| St. Kitts and Nevis | 36.8 | 36.6 | 35.9 | 35.4 | 37.6 | 38.2 | 38.8 | 39.7 | 41.4 | 43.6 | 45.1 |
| St. Lucia | 21.7 | 21.6 | 22.2 | 23.5 | 25.3 | 26.9 | 26.8 | 26.7 | 26.1 | 26.1 | 26.2 |
| St. Vincent and the Grenadines | 27.0 | 26.4 | 25.3 | 27.8 | 30.2 | 38.8 | 31.3 | 31.2 | 31.0 | 30.9 | 30.7 |
| Capital expenditure and net lending | 8.6 | 10.4 | 9.0 | 8.5 | 9.4 | 8.3 | 7.1 | 6.8 | 6.7 | 6.7 | 6.9 |
| Anguilla | 8.9 | 7.3 | 8.0 | 4.7 | 1.8 | 1.5 | 2.0 | 3.0 | 5.0 | 5.0 | 5.0 |
| Antigua and Barbuda | 4.0 | 8.2 | 6.4 | 6.5 | 9.3 | 2.9 | 3.0 | 3.0 | 3.0 | 3.0 | 4.0 |
| Dominica | 9.0 | 9.9 | 14.2 | 16.0 | 16.0 | 15.4 | 14.4 | 13.1 | 11.0 | 10.8 | 10.7 |
| Grenada | 13.8 | 18.8 | 13.5 | 11.7 | 9.5 | 7.6 | 7.0 | 7.0 | 7.0 | 7.2 | 7.2 |
| Montserrat | 21.8 | 15.4 | 21.3 | 26.1 | 26.4 | 17.2 | 17.2 | 17.2 | 14.2 | 11.4 | 8.6 |
| St. Kitts and Nevis | 6.7 | 8.0 | 8.2 | 6.8 | 6.0 | 8.8 | 7.1 | 7.1 | 7.1 | 7.1 | 7.1 |
| St. Lucia | 10.3 | 11.2 | 6.9 | 7.4 | 10.5 | 12.0 | 10.0 | 8.8 | 8.8 | 8.8 | 8.8 |
| St. Vincent and the Grenadines | 8.0 | 7.5 | 9.7 | 8.4 | 8.4 | 9.6 | 6.4 | 6.6 | 6.8 | 7.0 | 7.2 |
| Saving (current revenue less current expenditure) | 0.6 | 1.6 | 2.6 | 1.7 | -2.8 | -2.0 | 0.4 | 0.7 | 1.0 | 1.0 | 1.0 |
| Anguilla | 4.6 | 6.1 | 5.4 | -0.3 | -9.3 | -5.9 | 0.9 | 1.6 | 2.2 | 2.1 | 2.1 |
| Antigua and Barbuda | -3.3 | -3.3 | -0.8 | -0.9 | -9.9 | -1.8 | 1.2 | 2.0 | 2.7 | 3.1 | 3.2 |
| Dominica | 2.8 | 5.9 | 5.0 | 5.3 | 5.5 | 6.0 | 6.6 | 6.3 | 6.4 | 6.3 | 6.3 |
| Grenada | 3.8 | 4.0 | 4.6 | 2.6 | -1.2 | 0.8 | 2.8 | 3.9 | 4.9 | 5.6 | 6.2 |
| Montserrat | -37.9 | -40.4 | -45.4 | -41.7 | -40.7 | -38.6 | -38.7 | -38.9 | -39.0 | -39.1 | -39.2 |
| St. Kitts and Nevis | -0.1 | 0.2 | 1.4 | -0.1 | -1.8 | -7.1 | -6.4 | -7.2 | -9.1 | -11.3 | -12.8 |
| St. Lucia | 3.2 | 4.8 | 5.9 | 5.3 | 2.7 | 2.0 | 1.9 | 1.8 | 2.4 | 2.4 | 2.3 |
| St. Vincent and the Grenadines | 0.7 | 2.8 | 3.7 | 3.8 | -0.3 | -8.0 | -0.8 | -0.4 | 0.1 | 0.2 | 0.4 |
| Primary balance | -0.5 | -1.2 | -0.4 | -0.2 | -3.6 | -2.1 | 0.3 | 0.6 | 1.0 | 1.1 | 0.9 |
| Anguilla | -2.4 | 2.4 | -1.2 | -1.6 | -9.7 | -4.6 | 1.6 | 1.3 | -0.1 | -0.1 | -0.1 |
| Antigua and Barbuda | -1.5 | -4.3 | -2.9 | -3.1 | -11.5 | 3.0 | 3.4 | 3.8 | 4.2 | 4.2 | 3.2 |
| Dominica | 6.3 | 5.8 | 4.6 | 3.1 | 3.0 | 1.2 | 1.0 | 1.8 | 2.8 | 2.9 | 3.0 |
| Grenada | 2.4 | -4.3 | -5.8 | -3.0 | -3.8 | 0.3 | 2.0 | 3.3 | 4.0 | 4.4 | 4.8 |
| Montserrat | -15.4 | -3.2 | -5.7 | -9.8 | 4.2 | -3.6 | -4.7 | -3.8 | -2.9 | -1.9 | -0.5 |
| St. Kitts and Nevis | 4.0 | 4.7 | 3.6 | 3.3 | 5.0 | -6.8 | -3.8 | -3.7 | -3.8 | -3.9 | -3.9 |
| St. Lucia | -3.8 | -2.8 | 2.7 | 2.2 | -2.5 | -3.1 | -1.5 | -1.8 | -1.1 | -1.0 | -1.0 |
| St. Vincent and the Grenadines | -2.6 | -0.7 | -1.0 | 1.4 | -0.5 | -9.5 | -1.1 | -1.1 | -1.0 | -1.0 | -1.0 |
| Overall balance | -4.3 | -5.1 | -4.0 | -3.6 | -8.3 | -6.6 | -4.2 | -4.0 | -3.7 | -3.8 | -4.1 |
| Anguilla | -3.4 | 1.3 | -2.1 | -2.6 | -11.1 | -7.4 | -1.1 | -1.4 | -2.8 | -2.9 | -2.9 |
| Antigua and Barbuda | -5.7 | -8.5 | -6.4 | -6.3 | -19.1 | -2.3 | -1.7 | -0.8 | -0.1 | 0.3 | -0.6 |
| Dominica | 1.2 | 3.6 | 2.2 | 0.9 | 0.8 | -1.2 | -0.6 | -0.1 | 1.0 | 1.1 | 1.2 |
| Grenada | 0.4 | -6.1 | -7.9 | -5.1 | -6.6 | -2.9 | -1.2 | -0.3 | 0.6 | 0.9 | 1.4 |
| Montserrat | -15.5 | -3.3 | -5.7 | -9.9 | 4.2 | -3.6 | -4.9 | -4.1 | -3.3 | -2.5 | -1.1 |
| St. Kitts and Nevis | -4.1 | -5.0 | -4.8 | -5.0 | -3.1 | -15.5 | -13.1 | -13.9 | -15.7 | -18.0 | -19.5 |
| St. Lucia | -6.8 | -6.1 | -0.8 | -1.1 | -6.1 | -7.2 | -5.7 | -6.1 | -5.5 | -5.5 | -5.6 |
| St. Vincent and the Grenadines | -5.6 | -3.9 | -4.0 | -1.7 | -3.6 | -13.4 | -4.6 | -4.7 | -4.6 | -4.7 | -4.7 |

Sources: Country authorities; and Fund staff estimates.

1/ Fiscal years for Dominica and St. Lucia.

Table 4. ECCU: Selected Public Sector Debt Indicators by Country, 2005–15 1/

| | 2005 | 2006 | 2007 | 2008 | Prel. 2009 | Proj. | | | | | |
|-------------------------------------------------------------------|--------------|-------------|-------------|-------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | | | | | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| (In percent of GDP) | | | | | | | | | | | |
| Total public sector debt | 100.5 | 97.9 | 91.1 | 89.2 | 103.1 | 108.0 | 109.1 | 108.0 | 105.9 | 103.8 | 102.1 |
| Anguilla | 24.0 | 20.4 | 19.1 | 21.8 | 32.8 | 41.6 | 42.4 | 42.2 | 42.8 | 43.3 | 43.8 |
| Antigua and Barbuda 2/ | 111.5 | 105.8 | 93.3 | 92.8 | 115.3 | 117.3 | 115.4 | 111.0 | 104.9 | 98.4 | 93.0 |
| Dominica | 100.4 | 95.7 | 90.9 | 84.9 | 83.8 | 83.1 | 81.2 | 78.2 | 74.3 | 70.4 | 66.7 |
| Grenada | 110.3 | 116.5 | 111.0 | 102.2 | 122.3 | 119.1 | 116.3 | 111.8 | 104.5 | 96.8 | 89.1 |
| Montserrat | 10.9 | 9.9 | 9.0 | 8.1 | 6.3 | 9.4 | 13.7 | 17.1 | 19.5 | 21.1 | 21.7 |
| St. Kitts and Nevis | 195.9 | 189.3 | 181.3 | 170.0 | 184.7 | 196.3 | 204.9 | 211.6 | 218.7 | 227.8 | 237.8 |
| St. Lucia | 66.0 | 65.6 | 66.5 | 66.2 | 74.7 | 79.1 | 80.7 | 82.1 | 82.7 | 83.3 | 84.1 |
| St. Vincent and the Grenadines | 80.1 | 76.1 | 66.9 | 69.4 | 75.0 | 91.7 | 97.7 | 96.1 | 95.0 | 93.9 | 92.9 |
| External debt 3/ | 53.9 | 50.8 | 46.0 | 44.0 | 49.8 | 54.4 | 54.5 | 52.9 | 50.3 | 48.0 | 46.1 |
| Anguilla | 6.0 | 4.7 | 4.1 | 6.1 | 8.6 | 17.5 | 17.3 | 16.7 | 15.8 | 14.9 | 14.0 |
| Antigua and Barbuda 2/ | 41.4 | 40.4 | 37.7 | 35.1 | 43.7 | 47.4 | 48.6 | 48.6 | 46.9 | 44.9 | 43.8 |
| Dominica | 68.8 | 67.7 | 63.6 | 58.9 | 60.1 | 59.8 | 59.3 | 57.6 | 54.1 | 49.3 | 44.7 |
| Grenada | 78.9 | 81.0 | 78.4 | 74.6 | 87.6 | 87.2 | 86.6 | 83.1 | 76.9 | 70.2 | 63.5 |
| Montserrat | 9.2 | 8.4 | 7.7 | 6.7 | 6.0 | 5.5 | 5.0 | 4.5 | 4.1 | 3.7 | 3.3 |
| St. Kitts and Nevis | 76.4 | 67.6 | 58.7 | 59.2 | 63.4 | 63.1 | 58.5 | 51.4 | 44.7 | 42.1 | 39.8 |
| St. Lucia | 46.7 | 44.5 | 41.4 | 36.7 | 40.2 | 42.5 | 43.3 | 44.0 | 44.2 | 44.5 | 44.7 |
| St. Vincent and the Grenadines | 51.9 | 46.4 | 36.5 | 36.7 | 37.7 | 58.7 | 60.3 | 58.4 | 56.4 | 55.1 | 54.1 |
| Domestic debt | 46.6 | 47.1 | 45.1 | 45.2 | 53.3 | 53.6 | 54.7 | 55.1 | 55.6 | 55.8 | 56.1 |
| Anguilla | 18.0 | 15.7 | 15.0 | 15.7 | 24.3 | 24.1 | 25.0 | 25.5 | 27.1 | 28.4 | 29.8 |
| Antigua and Barbuda 2/ | 70.1 | 65.4 | 55.6 | 57.7 | 71.6 | 69.9 | 66.8 | 62.4 | 58.0 | 53.5 | 49.1 |
| Dominica | 31.6 | 28.0 | 27.3 | 26.0 | 23.8 | 23.3 | 21.9 | 20.7 | 20.2 | 21.1 | 22.0 |
| Grenada | 31.4 | 35.5 | 32.6 | 27.6 | 34.7 | 31.8 | 29.7 | 28.7 | 27.7 | 26.6 | 25.6 |
| Montserrat | 1.8 | 1.5 | 1.2 | 1.4 | 0.3 | 4.0 | 8.8 | 12.6 | 15.5 | 17.4 | 18.4 |
| St. Kitts and Nevis | 119.5 | 121.7 | 122.6 | 110.8 | 121.3 | 133.2 | 146.4 | 160.2 | 174.0 | 185.6 | 198.0 |
| St. Lucia | 19.3 | 21.1 | 25.1 | 29.5 | 34.5 | 36.6 | 37.4 | 38.1 | 38.5 | 38.8 | 39.4 |
| St. Vincent and the Grenadines | 28.2 | 29.7 | 30.3 | 32.7 | 37.3 | 32.9 | 37.5 | 37.7 | 38.6 | 38.8 | 38.9 |
| (In percent) | | | | | | | | | | | |
| Implied interest rate on central government debt | | | | | | | | | | | |
| Anguilla | 5.1 | 6.1 | 5.9 | 5.4 | 4.8 | 7.2 | 7.0 | 7.0 | 6.9 | 6.9 | 6.9 |
| Antigua and Barbuda | 4.0 | 4.3 | 4.0 | 3.6 | 7.1 | 4.9 | 4.7 | 4.4 | 4.3 | 4.2 | 4.4 |
| Dominica | 6.4 | 2.9 | 3.2 | 3.2 | 3.1 | 3.4 | 2.5 | 2.8 | 2.8 | 3.0 | 3.2 |
| Grenada | 2.1 | 1.8 | 2.1 | 2.4 | 2.6 | 3.2 | 3.3 | 3.9 | 3.9 | 4.4 | 4.5 |
| Montserrat | 2.4 | 1.8 | 2.9 | 2.4 | 4.2 | 0.7 | 1.6 | 2.3 | 2.7 | 3.0 | 3.1 |
| St. Kitts and Nevis | 6.5 | 6.9 | 6.1 | 6.4 | 5.7 | 5.6 | 5.7 | 6.1 | 6.8 | 7.7 | 8.0 |
| St. Lucia | 5.3 | 5.8 | 6.0 | 5.5 | 5.3 | 5.5 | 5.5 | 5.5 | 5.6 | 5.7 | 5.7 |
| St. Vincent and the Grenadines | 4.2 | 4.8 | 5.5 | 5.3 | 5.2 | 5.5 | 4.8 | 4.9 | 4.9 | 5.0 | 5.0 |
| Implied interest rates on central government external debt | | | | | | | | | | | |
| Anguilla | 4.2 | 5.5 | 5.7 | 4.1 | 5.1 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 |
| Antigua and Barbuda 4/ | 6.5 | 8.0 | 6.8 | 5.8 | 5.7 | 5.5 | 5.5 | 5.2 | 5.1 | 5.1 | 5.1 |
| Dominica | 5.1 | 2.6 | 2.3 | 3.4 | 3.0 | 3.5 | 2.3 | 2.3 | 2.3 | 2.4 | 2.4 |
| Grenada | 1.3 | 1.7 | 1.9 | 2.0 | 2.4 | 2.8 | 3.3 | 3.9 | 3.8 | 4.3 | 4.5 |
| Montserrat | 2.1 | 1.0 | 2.6 | 2.1 | 2.4 | 2.1 | 2.1 | 2.1 | 2.2 | 2.2 | 2.2 |
| St. Kitts and Nevis | 7.8 | 6.8 | 6.8 | 6.2 | 5.6 | 5.2 | 5.1 | 5.3 | 5.2 | 5.2 | 5.3 |
| St. Lucia | 5.0 | 5.8 | 6.5 | 5.4 | 5.6 | 5.4 | 5.2 | 5.1 | 5.1 | 5.1 | 5.1 |
| St. Vincent and the Grenadines 5/ | 3.1 | 3.7 | 5.2 | 4.8 | 4.5 | 3.5 | 4.4 | 4.4 | 4.4 | 4.4 | 4.4 |
| Implied interest rates on central government domestic debt | | | | | | | | | | | |
| Anguilla | 5.3 | 6.2 | 5.9 | 6.2 | 4.7 | 7.7 | 7.3 | 7.3 | 7.1 | 7.1 | 7.1 |
| Antigua and Barbuda 4/ | 2.6 | 2.2 | 2.2 | 2.2 | 7.8 | 4.6 | 4.1 | 3.8 | 3.7 | 3.5 | 3.7 |
| Dominica | 8.9 | 3.4 | 5.4 | 2.8 | 3.3 | 3.0 | 3.2 | 4.5 | 4.5 | 5.0 | 5.5 |
| Grenada | 4.0 | 1.9 | 2.6 | 3.3 | 3.1 | 4.1 | 3.2 | 3.9 | 4.0 | 4.6 | 4.7 |
| Montserrat | 3.0 | 2.7 | 3.4 | 2.8 | 10.4 | 0.3 | 1.5 | 2.3 | 2.7 | 3.0 | 3.2 |
| St. Kitts and Nevis | 5.6 | 6.9 | 5.8 | 6.5 | 5.8 | 5.8 | 6.0 | 6.3 | 7.3 | 8.3 | 8.7 |
| St. Lucia | 5.9 | 5.7 | 5.1 | 5.7 | 4.9 | 5.6 | 5.9 | 6.1 | 6.3 | 6.4 | 6.5 |
| St. Vincent and the Grenadines 5/ | 7.4 | 7.0 | 5.9 | 6.0 | 6.0 | 10.5 | 5.8 | 5.9 | 5.9 | 6.0 | 6.0 |

Sources: Country authorities; and Fund staff estimates.

1/ Fiscal years for Dominica and St. Lucia.

2/ The decline of public debt in 2008 reflects debt write-down by the Banco do Brazil and two statutory bodies.

3/ Includes external arrears.

4/ Interest payments from 2009 are on accrual basis.

5/ The increase (decrease) in implicit domestic (external) interest rate in 2010 is due to the projected repayment of domestic debt financed by external borrowing, resulting in a large decline (increase) in year-end domestic (external) debt outstanding.

Table 5. ECCU: Monetary Survey, 2005–11
(In millions of Eastern Caribbean dollars)

| | 2005 | 2006 | 2007 | 2008 | Prel. 2009 | Proj. 2010 | 2011 |
|-----------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| I. Monetary Survey (Consolidated Banking System) | | | | | | | |
| Net foreign assets | 3,000.6 | 3,177.9 | 3,025.6 | 2,271.8 | 1,920.1 | 1,872.3 | 1,784.9 |
| Net domestic assets | 6,055.0 | 6,927.2 | 8,062.5 | 9,812.9 | 10,393.5 | 10,544.3 | 10,995.7 |
| Net credit to the public sector | -10.7 | -148.3 | -72.4 | 83.6 | 367.3 | 25.4 | -44.7 |
| Central government | 652.3 | 638.7 | 872.2 | 1,044.2 | 1,275.6 | 1,345.9 | 1,324.9 |
| Nonfinancial public enterprises 1/ | -663.0 | -787.0 | -944.6 | -960.5 | -908.3 | -1,320.5 | -1,369.6 |
| Credit to private sector | 7,371.1 | 8,697.0 | 10,445.8 | 12,031.6 | 12,308.4 | 12,664.4 | 13,185.9 |
| Other | -1,305.4 | -1,621.4 | -2,311.0 | -2,302.2 | -2,282.3 | -2,145.5 | -2,145.5 |
| Liabilities to private sector (M2) | 9,055.6 | 10,105.1 | 11,088.1 | 12,084.7 | 12,313.6 | 12,416.6 | 12,780.7 |
| Money (M1) | 2,086.7 | 2,258.9 | 2,493.8 | 2,641.2 | 2,455.8 | 2,374.1 | 2,364.8 |
| Quasi-money | 6,968.9 | 7,846.2 | 8,594.3 | 9,443.5 | 9,857.8 | 10,042.5 | 10,415.9 |
| II. Eastern Caribbean Central Bank | | | | | | | |
| Net foreign assets | 1,611.7 | 1,871.9 | 2,055.8 | 2,039.8 | 2,157.0 | 2,048.8 | 1,940.4 |
| Net domestic assets | -1,090.3 | -1,285.9 | -1,461.1 | -1,426.9 | -1,535.6 | -1,543.4 | -1,513.8 |
| Net position with banks and other institutions | -1,043.7 | -1,172.2 | -1,296.1 | -1,258.6 | -1,312.8 | -1,403.4 | -1,382.8 |
| Credit to government | -14.8 | -52.8 | -74.9 | -53.1 | -13.8 | 60.0 | 69.0 |
| Other | -31.8 | -61.0 | -90.2 | -115.3 | -209.0 | -200.0 | -200.0 |
| Liabilities to private sector | 521.4 | 586.0 | 594.7 | 612.8 | 621.4 | 505.3 | 426.6 |
| Currency issued | 732.8 | 783.3 | 842.1 | 878.3 | 835.6 | 723.5 | 652.9 |
| Currency held by banks | -211.4 | -197.3 | -247.4 | -265.4 | -214.2 | -218.2 | -226.3 |
| III. Commercial Banks | | | | | | | |
| Net foreign assets | 1,388.9 | 1,306.0 | 969.8 | 232.0 | -236.9 | -176.5 | -155.5 |
| Net claims on ECCB | 1,029.2 | 1,180.2 | 1,266.4 | 1,246.1 | 1,275.6 | 1,403.4 | 1,382.8 |
| Net domestic credit | 6,116.1 | 7,033.0 | 8,257.2 | 9,993.7 | 10,653.5 | 10,684.3 | 11,126.7 |
| Net credit to the public sector | 4.1 | -95.6 | 2.5 | 136.7 | 381.1 | -34.6 | -113.7 |
| Central government | 667.1 | 691.5 | 947.1 | 1,097.2 | 1,289.4 | 1,285.9 | 1,255.9 |
| Rest of the public sector | -663.0 | -787.0 | -944.6 | -960.5 | -908.3 | -1,320.5 | -1,369.6 |
| Credit to private sector | 7,371.1 | 8,697.0 | 10,445.8 | 12,031.6 | 12,308.4 | 12,664.4 | 13,185.9 |
| Other | -1,259.1 | -1,568.5 | -2,191.1 | -1,992.1 | -1,901.7 | -1,945.5 | -1,945.5 |
| Liabilities to the private sector | 8,534.2 | 9,519.1 | 10,493.4 | 11,471.9 | 11,692.2 | 11,911.3 | 12,354.1 |
| (Percentage growth compared to M2 at the beginning of the year) | | | | | | | |
| Memorandum items of the consolidated banking system: | | | | | | | |
| Net foreign assets | 1.2 | 2.0 | -1.5 | -6.8 | -2.9 | -0.4 | -0.7 |
| Central bank | -1.1 | 2.9 | 1.8 | -0.1 | 1.0 | -0.9 | -0.9 |
| Commercial banks | 2.3 | -0.9 | -3.3 | -6.7 | -3.9 | 0.5 | 0.2 |
| Net domestic assets | 7.2 | 9.6 | 11.2 | 15.8 | 4.8 | 1.2 | 3.6 |
| Of which | | | | | | | |
| Net credit to the public sector | 2.5 | -1.5 | 0.8 | 1.4 | 2.3 | -2.8 | -0.6 |
| Credit to the private sector | 9.2 | 14.6 | 17.3 | 14.3 | 2.3 | 2.9 | 4.2 |
| (Annual percentage change) | | | | | | | |
| Liabilities to the private sector (M2) | 8.4 | 11.6 | 9.7 | 9.0 | 1.9 | 0.8 | 2.9 |
| Private sector credit | 11.7 | 18.0 | 20.1 | 15.2 | 2.3 | 2.9 | 4.1 |
| Income velocity of broad money | 1.10 | 1.09 | 1.08 | 1.06 | 0.99 | 1.00 | 1.00 |
| Private sector credit/GDP (percent) | 73.9 | 79.1 | 86.9 | 94.3 | 101.4 | 102.5 | 102.9 |
| Broad money/GDP (percent) | 90.7 | 91.9 | 92.2 | 94.7 | 101.5 | 100.5 | 99.7 |
| Foreign currency deposits/GDP (percent) | 14.1 | 16.0 | 16.0 | 15.0 | 15.9 | 15.9 | 15.9 |

Sources: ECCB; and Fund staff estimates.

1/ Includes the national insurance schemes.

Table 6. ECCU: Summary Balance of Payments, 2005–15

| | 2005 | 2006 | 2007 | 2008 | Prel. 2009 | Proj. | | | | | |
|----------------------------------------------------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | | | | | | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| (In millions of U.S. dollars) | | | | | | | | | | | |
| Current account | -831.1 | -1,257.6 | -1,575.7 | -1,745.1 | -1,201.9 | -1,164.7 | -1,069.7 | -1,056.4 | -1,048.9 | -1,091.0 | -1,152.1 |
| Trade balance | -1,487.4 | -1,844.8 | -2,084.6 | -2,250.3 | -1,608.1 | -1,621.2 | -1,603.6 | -1,678.1 | -1,772.3 | -1,933.9 | -2,109.8 |
| Exports | 370.1 | 360.8 | 378.0 | 467.6 | 421.6 | 427.2 | 443.7 | 462.3 | 481.8 | 507.2 | 533.8 |
| Imports | -1,857.5 | -2,205.6 | -2,462.6 | -2,717.9 | -2,029.7 | -2,048.4 | -2,047.3 | -2,140.4 | -2,254.1 | -2,441.1 | -2,643.6 |
| Services and income | 468.2 | 423.4 | 370.7 | 342.7 | 243.8 | 283.3 | 349.1 | 424.6 | 509.9 | 611.6 | 707.2 |
| Services | 716.7 | 638.2 | 616.1 | 621.8 | 529.3 | 574.8 | 644.0 | 720.2 | 802.0 | 904.7 | 1,000.3 |
| Transportation | -174.2 | -212.4 | -234.1 | -231.0 | -219.6 | -223.7 | -232.0 | -243.8 | -257.6 | -272.8 | -288.9 |
| Travel | 989.7 | 991.6 | 1,000.2 | 965.6 | 867.6 | 915.1 | 988.4 | 1,070.9 | 1,160.8 | 1,273.0 | 1,379.5 |
| Other services | -98.9 | -141.0 | -150.0 | -112.8 | -118.7 | -116.5 | -112.4 | -106.9 | -101.2 | -95.6 | -90.2 |
| Income | -248.5 | -214.8 | -245.4 | -279.0 | -285.5 | -291.5 | -294.9 | -295.6 | -292.1 | -293.0 | -293.2 |
| Current transfers | 188.1 | 163.9 | 138.2 | 162.5 | 162.5 | 173.2 | 184.8 | 197.1 | 213.5 | 231.3 | 250.6 |
| Capital and financial account | 813.6 | 1,349.5 | 1,622.5 | 1,725.4 | 1,211.1 | 1,087.0 | 990.3 | 983.5 | 1,000.2 | 1,079.8 | 1,158.2 |
| Capital transfers (net) | 330.1 | 173.8 | 225.2 | 219.9 | 200.0 | 200.0 | 200.0 | 200.0 | 200.0 | 200.0 | 200.0 |
| Financial account | 483.5 | 1,175.6 | 1,397.3 | 1,505.5 | 1,011.1 | 887.0 | 790.3 | 783.5 | 800.2 | 879.8 | 958.2 |
| Direct investment | 639.8 | 1,072.7 | 1,199.4 | 994.9 | 737.6 | 687.6 | 713.2 | 749.2 | 807.6 | 863.7 | 948.6 |
| Portfolio investment | 31.1 | 21.9 | -26.6 | -5.8 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 | 20.0 |
| Public sector long term loan | -110.0 | 4.9 | 23.0 | 3.0 | 170.8 | 196.6 | 67.1 | 21.2 | -25.6 | -29.5 | -18.7 |
| Change in NFA of commercial banks | -70.3 | 30.7 | 124.5 | 273.2 | 173.7 | -22.4 | -7.8 | -2.3 | -0.2 | 25.0 | -0.7 |
| Other investment 1/ | -12.3 | 45.4 | 76.9 | 240.1 | -91.0 | 5.2 | -2.2 | -4.6 | -1.6 | 0.6 | 8.9 |
| Overall balance | -17.5 | 91.9 | 46.7 | -19.7 | 9.3 | -77.7 | -79.4 | -72.9 | -48.7 | -11.2 | 6.1 |
| Financing | 17.5 | -91.9 | -46.7 | 19.7 | -9.3 | 77.7 | 79.4 | 72.9 | 48.7 | 11.2 | -6.1 |
| Of which : Change in imputed reserves (increase -) | 28.3 | -93.8 | -56.3 | 20.4 | -43.4 | 40.1 | 40.1 | 39.9 | 40.6 | 38.8 | 39.4 |
| Net use of Fund resources | 3.2 | 2.5 | -4.7 | 8.9 | 34.2 | 37.6 | 39.2 | 33.0 | 8.2 | -28.7 | -47.5 |
| (In percent of GDP) | | | | | | | | | | | |
| Current account | -22.5 | -30.9 | -35.4 | -36.9 | -26.7 | -25.4 | -22.5 | -21.2 | -19.9 | -19.5 | -19.5 |
| Exports | 10.0 | 8.9 | 8.5 | 9.9 | 9.4 | 9.3 | 9.3 | 9.3 | 9.1 | 9.1 | 9.0 |
| Imports | -50.3 | -54.1 | -55.3 | -57.5 | -45.2 | -44.7 | -43.1 | -42.9 | -42.8 | -43.7 | -44.7 |
| Services, incomes and transfers | 17.8 | 14.4 | 11.4 | 10.7 | 9.0 | 10.0 | 11.2 | 12.5 | 13.7 | 15.1 | 16.2 |
| Of which | | | | | | | | | | | |
| Travel | 26.8 | 24.3 | 22.5 | 20.4 | 19.3 | 20.0 | 20.8 | 21.5 | 22.0 | 22.8 | 23.3 |
| Current transfers | 5.1 | 4.0 | 3.1 | 3.4 | 3.6 | 3.8 | 3.9 | 4.0 | 4.0 | 4.1 | 4.2 |
| Capital and financial account | 22.0 | 33.1 | 36.4 | 36.5 | 27.0 | 23.7 | 20.9 | 19.7 | 19.0 | 19.3 | 19.6 |
| Of which | | | | | | | | | | | |
| Direct investment | 17.3 | 26.3 | 26.9 | 21.0 | 16.4 | 15.0 | 15.0 | 15.0 | 15.3 | 15.5 | 16.0 |
| Overall balance | -0.5 | 2.3 | 1.0 | -0.4 | 0.2 | -1.7 | -1.7 | -1.5 | -0.9 | -0.2 | 0.1 |
| (Annual percentage change) | | | | | | | | | | | |
| Exports | 8.0 | -2.5 | 4.8 | 23.7 | -9.8 | 1.3 | 3.9 | 4.2 | 4.2 | 5.3 | 5.2 |
| Imports | 17.6 | 18.7 | 11.7 | 10.4 | -25.3 | 0.9 | -0.1 | 4.5 | 5.3 | 8.3 | 8.3 |
| Travel (net) | 3.1 | 0.2 | 0.9 | -3.5 | -10.2 | 5.5 | 8.0 | 8.3 | 8.4 | 9.7 | 8.4 |
| Foreign direct investment | 39.5 | 67.7 | 11.8 | -17.1 | -25.9 | -6.8 | 3.7 | 5.1 | 7.8 | 6.9 | 9.8 |
| Memorandum items: | | | | | | | | | | | |
| End-year gross reserves of the ECCB, US\$ millions | 600.8 | 696.0 | 764.5 | 759.0 | 800.8 | 760.8 | 720.6 | 680.7 | 640.2 | 601.3 | 562.0 |
| In months of current year imports | 3.9 | 3.8 | 3.7 | 3.4 | 4.7 | 4.5 | 4.2 | 3.8 | 3.4 | 3.0 | 2.6 |
| Holdings of SDRs 2/ | ... | ... | ... | ... | 93.7 | 81.7 | 81.7 | 81.7 | 81.7 | 81.7 | 81.7 |
| ECCU GDP at market prices, US\$ millions | 3,696.4 | 4,074.2 | 4,454.0 | 4,727.6 | 4,493.7 | 4,577.9 | 4,748.1 | 4,988.3 | 5,271.7 | 5,582.1 | 5,911.8 |

Sources: ECCB; and Fund staff estimates and projections.

1/ Includes errors and omissions.

2/ SDR allocation of US\$ 93.7 million (SDR 59.9 million) implemented in 2009.

Table 7. ECCU: Selected Vulnerability Indicators, 2005–11

| | 2005 | 2006 | 2007 | 2008 | Prel. 2009 | Proj. | |
|-----------------------------------------------------------|-------|-------|-------|-------|---------------|-------|-------|
| | | | | | | 2010 | 2011 |
| Key economic and market indicators | | | | | | | |
| Real GDP growth | 5.4 | 6.6 | 5.6 | 1.9 | -6.7 | -1.0 | 2.1 |
| CPI inflation, (in percent, end of year) | 4.2 | 2.4 | 5.9 | 4.2 | 0.7 | 1.6 | 2.7 |
| Interbank interest rate (in percent, end of year) | 4.3 | 5.2 | 5.1 | 5.2 | 6.2 | ... | ... |
| Exchange rate, EC\$/US\$ (end of period) | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |
| External sector | | | | | | | |
| Current account balance (percent of GDP) | -22.5 | -30.9 | -35.4 | -36.9 | -26.6 | -25.0 | -22.2 |
| FDI inflows (percent of GDP) | 17.3 | 26.3 | 26.9 | 21.0 | 16.4 | 15.0 | 15.0 |
| Export growth (f.o.b) | 8.0 | -2.5 | 4.8 | 23.7 | -9.8 | 1.3 | 3.9 |
| Travel (percent of GDP) | 26.8 | 24.3 | 22.5 | 20.4 | 19.4 | 20.2 | 20.9 |
| Terms of trade (12-month percentage change) 1/ | -4.4 | -10.9 | -5.2 | -17.2 | 23.2 | ... | ... |
| Real effective exchange rate (1990=100) 1/ | 92.3 | 92.3 | 90.3 | 91.2 | 93.0 | ... | ... |
| Gross international reserves (in US\$ billion) | 0.601 | 0.696 | 0.765 | 0.759 | 0.801 | 0.757 | 0.721 |
| Net international reserves (in US\$ billion) | 0.597 | 0.693 | 0.761 | 0.755 | 0.799 | 0.755 | 0.719 |
| Total gross external public debt (percent of GDP) | 53.9 | 50.8 | 46.0 | 44.0 | 50.1 | 54.3 | 54.1 |
| Gross external financing requirement (in US\$ billion) 2/ | 1.052 | 1.334 | 1.700 | 1.868 | 1.295 | 1.270 | 1.174 |
| Consolidated public sector (percent of GDP) | | | | | | | |
| Overall central government balance | -4.3 | -5.1 | -4.0 | -3.6 | -8.4 | -6.4 | -3.9 |
| Primary central government balance | -0.5 | -1.2 | -0.4 | -0.2 | -3.6 | -2.1 | 0.3 |
| Central government current account balance | 0.6 | 1.6 | 2.6 | 1.7 | -2.8 | -1.9 | 0.6 |
| Public sector gross debt (end-of-period) | 100.5 | 97.9 | 91.1 | 89.2 | 103.8 | 104.6 | 104.5 |
| Public and private financial sector (in percent) | | | | | | | |
| NPLs/total loans | 9.4 | 7.6 | 6.0 | 7.6 | 7.5 | ... | ... |
| Loan loss provision/NPLs | 34.9 | 31.6 | 31.9 | 23.8 | 28.5 | ... | ... |
| Loans to agricultural sector/total loans | 3.6 | 3.0 | 2.7 | 3.1 | 2.9 | ... | ... |
| Loans to tourism sector/total loans | 8.0 | 9.6 | 11.2 | 11.3 | 10.7 | ... | ... |
| Loans to household sector/total loans | 47.5 | 45.3 | 43.0 | 42.3 | 41.6 | ... | ... |
| Gross government claims/total assets | 15.1 | 14.4 | 13.5 | 14.2 | 14.1 | ... | ... |
| Government deposits/total deposits | 17.1 | 17.8 | 17.2 | 17.7 | 18.6 | ... | ... |
| FX deposits/total deposits | 16.0 | 18.0 | 17.6 | 16.7 | 17.9 | ... | ... |
| Liquid assets/total assets | 28.9 | 27.2 | 25.3 | 22.2 | 22.3 | ... | ... |
| Large loans and advances/total loans | 28.2 | 29.5 | 31.5 | 29.6 | 31.6 | ... | ... |
| Large deposits/total deposits | 22.2 | 23.0 | 23.3 | 21.3 | 23.6 | ... | ... |
| Risk-weighted assets/total assets | 54.1 | 56.8 | 60.1 | 62.4 | 62.2 | ... | ... |
| Contingent liabilities/capital (indigenous banks) | 91.6 | 97.1 | 72.2 | 76.2 | 44.4 | ... | ... |
| (Pre-tax) return on average assets | 2.1 | 2.5 | 2.6 | 2.6 | 2.1 | ... | ... |
| (Pre-tax) return on average equity | 16.1 | 21.5 | 21.6 | 20.3 | 12.0 | ... | ... |
| Memorandum items: | | | | | | | |
| ECCB reserve cover (in percent) 3/ | 96.5 | 98.7 | 100.1 | 102.0 | 95.6 | ... | ... |
| ECCB gross reserves/broad money (in percent) | 17.9 | 18.6 | 18.6 | 17.0 | 17.6 | ... | ... |

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

1/ Excludes Anguilla and Montserrat.

2/ Defined as external current account deficit plus external amortization.

3/ Foreign assets as a percentage of demand liabilities.

Table 8. ECCU: Creditor Composition of Public Debt at End-2009 1/
(In percent of total)

| | Antigua and Barbuda | Dominica | Grenada | St. Kitts and Nevis | St. Lucia | St. Vincent and the Grenadines |
|----------------------------------------|---------------------------|--------------|--------------|------------------------|--------------|--------------------------------------|
| External debt | 37.4 | 69.4 | 71.6 | 34.3 | 51.6 | 50.3 |
| Central government | 33.1 | 56.6 | 63.1 | 26.7 | 47.7 | 41.6 |
| Multilateral | 3.0 | 33.9 | 25.5 | 8.0 | 30.3 | 24.9 |
| Official bilateral | 18.7 | 9.0 | 11.0 | 5.7 | 3.8 | 6.2 |
| Commercial | 11.3 | 11.0 | 26.5 | 4.0 | 13.6 | 8.5 |
| Other | 0.0 | 2.6 | 0.0 | 7.6 | 0.0 | 2.0 |
| Arrears, total 2/ | 0.0 | 0.0 | 0.0 | 1.3 2/ | 0.0 | 0.0 |
| Other public sector | 4.4 | 12.8 | 8.6 | 7.6 | 3.9 | 8.7 |
| Domestic debt | 62.6 | 30.6 | 28.4 | 65.7 | 48.4 | 49.7 |
| Central government | 59.7 | 24.7 | 24.3 | 51.0 | 44.4 | 35.4 |
| ECCB | 2.6 | 0.2 | 0.2 | 0.9 | 0.2 | 0.0 |
| Private domestic banks | 18.2 | 7.8 | 8.3 | 32.7 | 18.9 | 16.9 |
| Nonbank financial institutions | 1.2 | 0.0 | 3.0 | 2.5 | 0.0 | 6.9 |
| National Insurance Scheme | 0.0 | 12.6 | 4.5 | 3.5 | 0.0 | 3.3 |
| Other | 8.6 | 4.2 | 5.9 | 11.4 | 25.4 | 8.3 |
| Arrears, total | 29.1 3/ | 0.0 | 2.3 4/ | 0.0 | 0.0 | 0.0 |
| Other public sector | 2.9 | 5.9 | 4.0 | 14.7 | 4.0 | 14.3 |
| Total debt | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Memorandum items: | | | | | | |
| Public debt (millions of U.S. dollars) | 1335.0 | 308.5 | 752.0 | 1029.2 | 731.6 | 428.2 |
| External debt | 499.8 | 214.0 | 538.7 | 353.1 | 377.4 | 215.5 |
| Domestic debt | 835.2 | 94.5 | 213.2 | 676.1 | 354.3 | 212.7 |

Sources: National authorities; and Fund staff estimates.

1/ Figures for Dominica are as of end-June 2009.

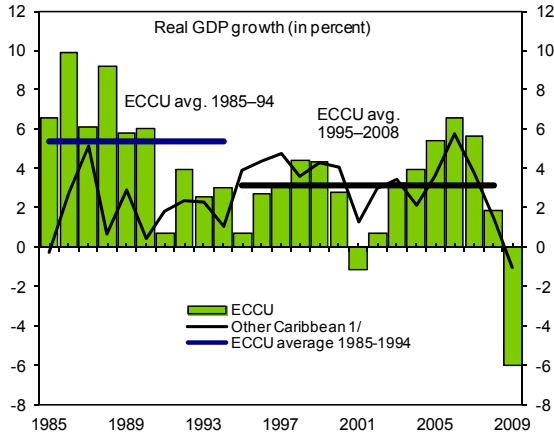
2/ Arrears to a bilateral creditor.

3/ Arrears are largely to social security fund, medical benefit scheme and supplier credits.

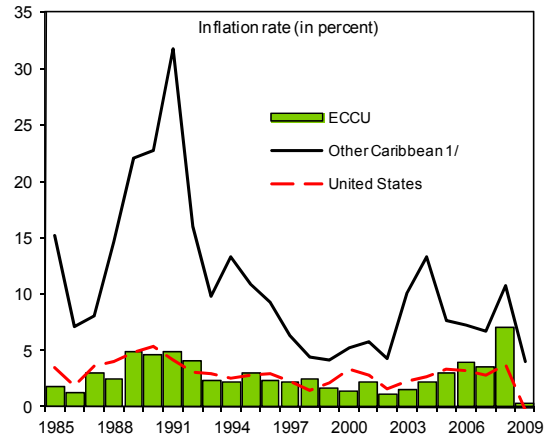
4/ Unpaid invoices.

Figure 1. ECCU: Overview

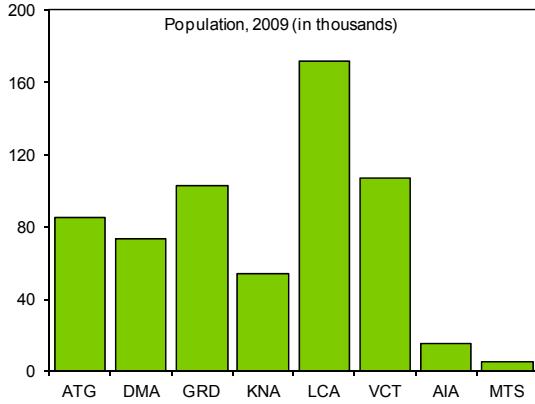
In the 1980s, the ECCU outperformed the Caribbean average, but growth has slowed since the mid-1990s.



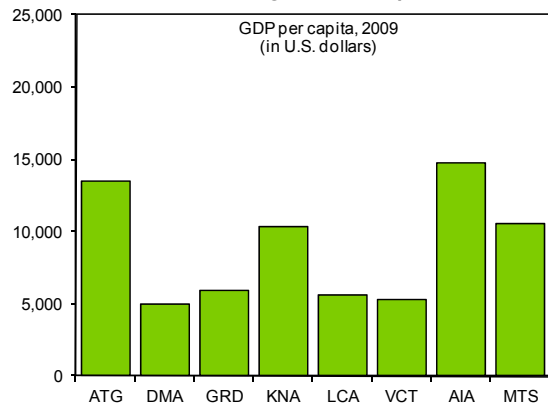
The quasi-currency board arrangement has provided price stability anchored to the U.S. level.



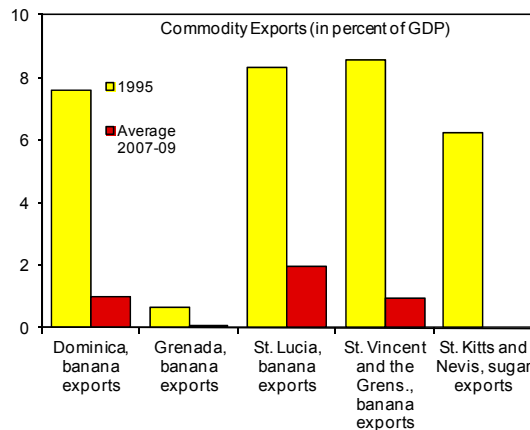
The economies are small...



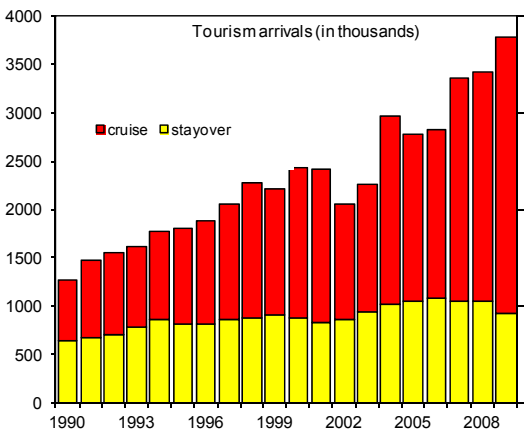
...and at different stages of development.



Traditional agriculture has declined...



...with tourism gaining increasing importance.



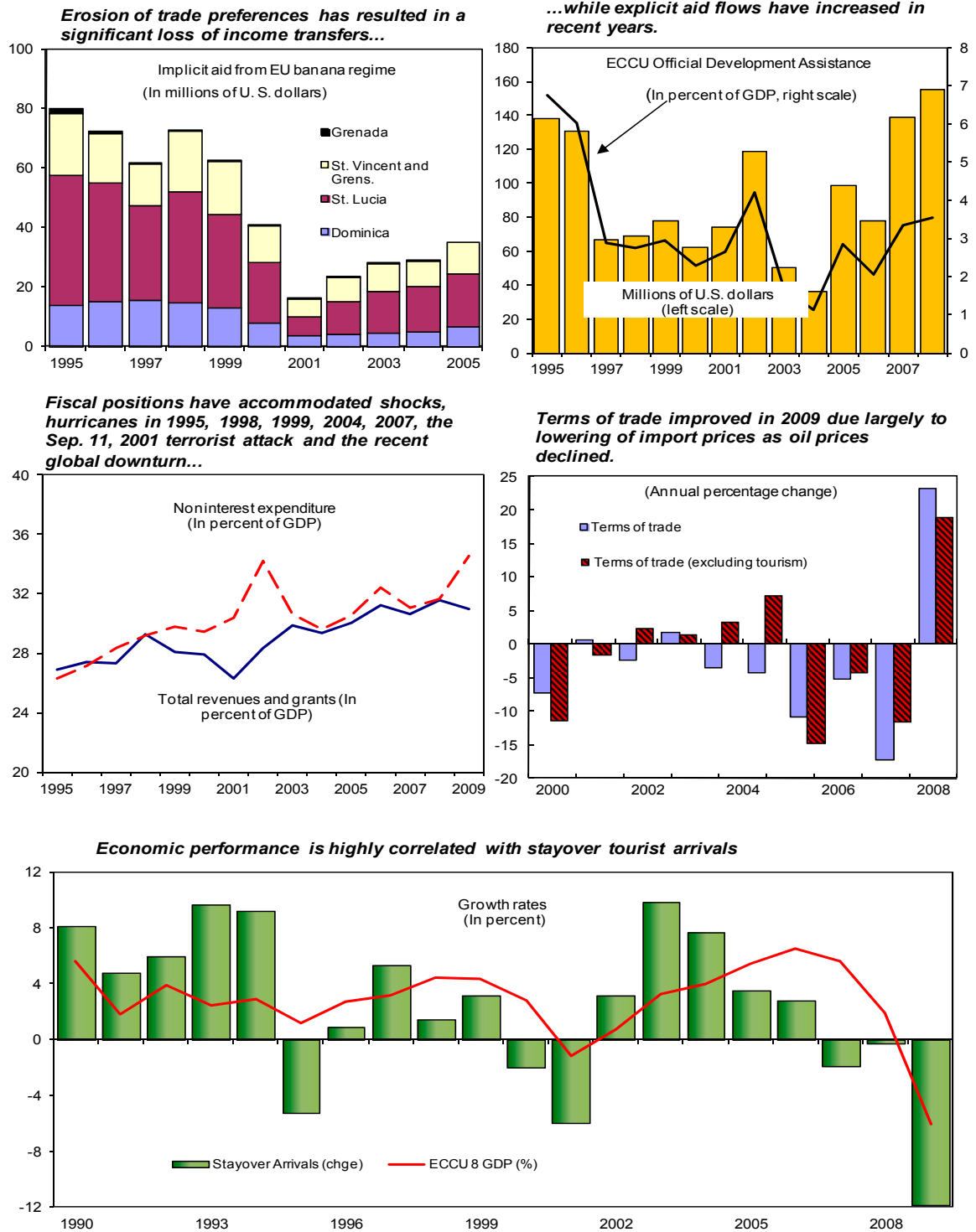
Sources: ECCB; World Bank; and Fund staff estimates.

1/ Simple average of The Bahamas, Barbados, Belize, Dominican Republic, Guyana, Haiti, Jamaica, and Trinidad and Tobago.

2/ A larger value indicates greater income inequality.

Note: Antigua and Barbuda (ATG), Barbados (BRB), Dominica (DMA), Dominican Republic (DOM), Grenada (GRD), Guyana (GUY), Jamaica (JAM), St. Kitts and Nevis (KNA), St. Lucia (LCA), St. Vincent and the Grenadines (VCT), Trinidad and Tobago (TTO).

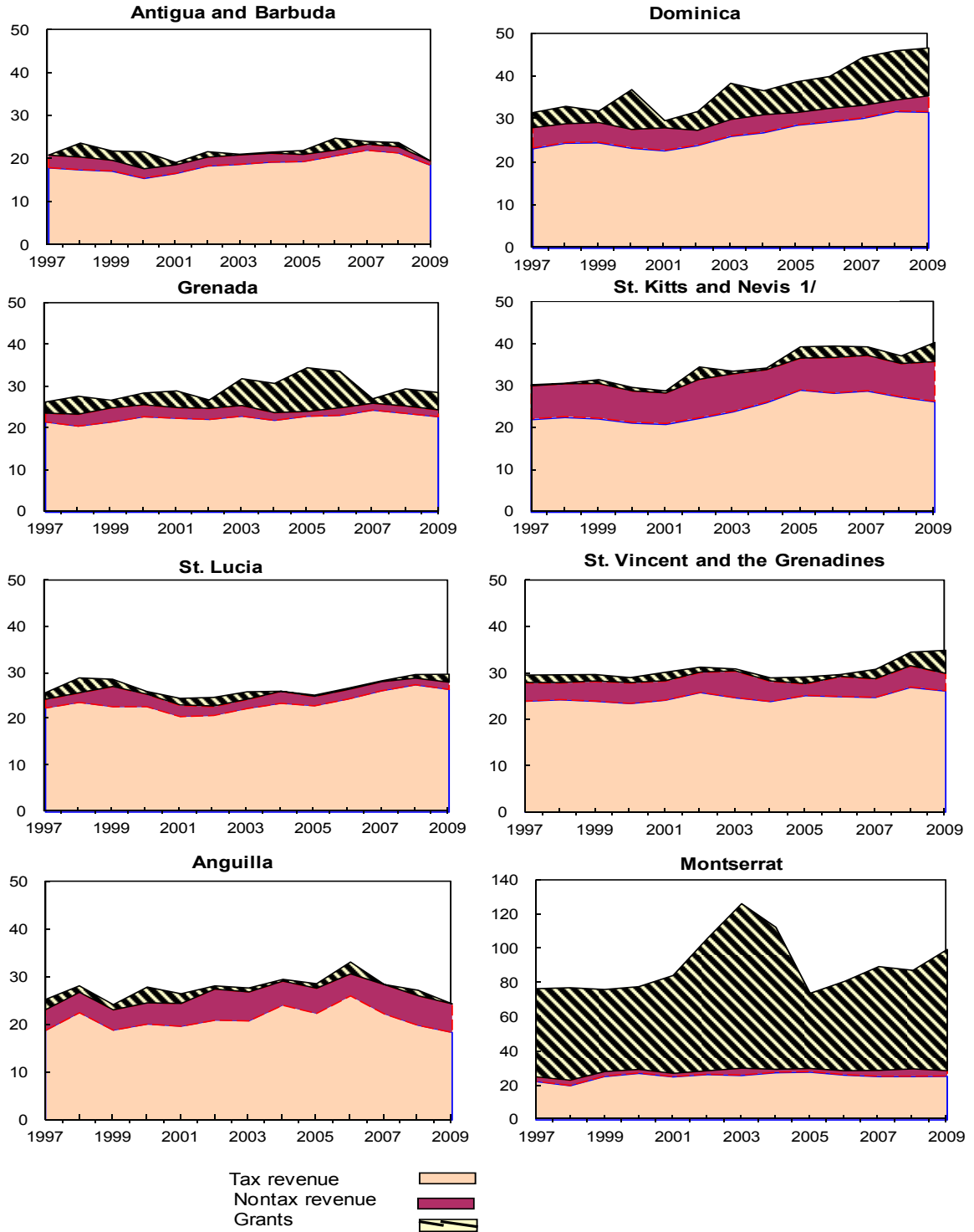
Figure 2. ECCU: External Environment, 1995–2009



Sources: World Bank, World Development Indicators; IMF, International Financial Statistics; IMF, World Economic Outlook; OECD, International Development Statistics; ECCB; and Fund staff calculations.

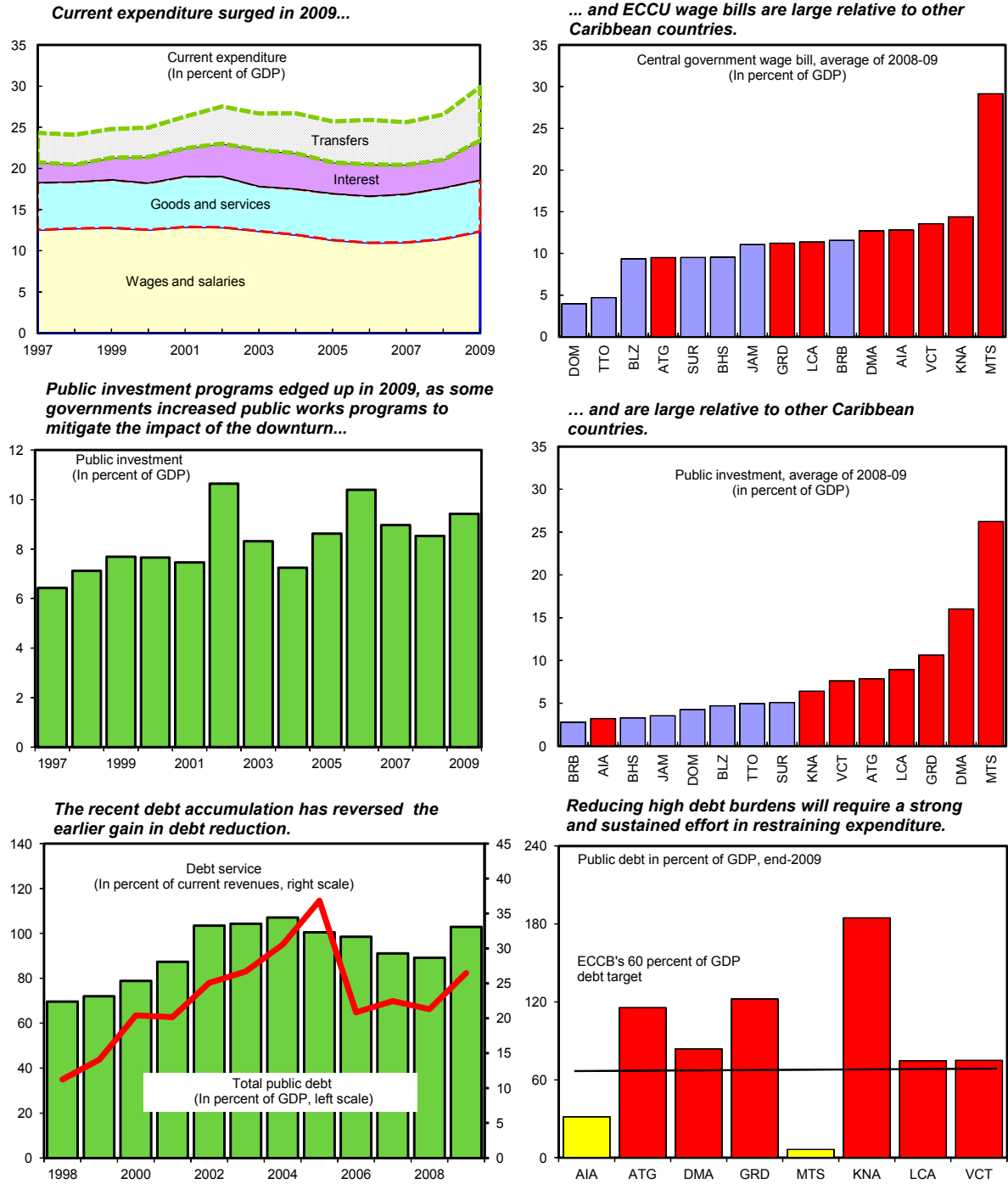
Figure 3. ECCU: Fiscal Revenue, 1997–2009
(In percent of GDP)

Under the economic downturn, tax revenue have declined in most countries



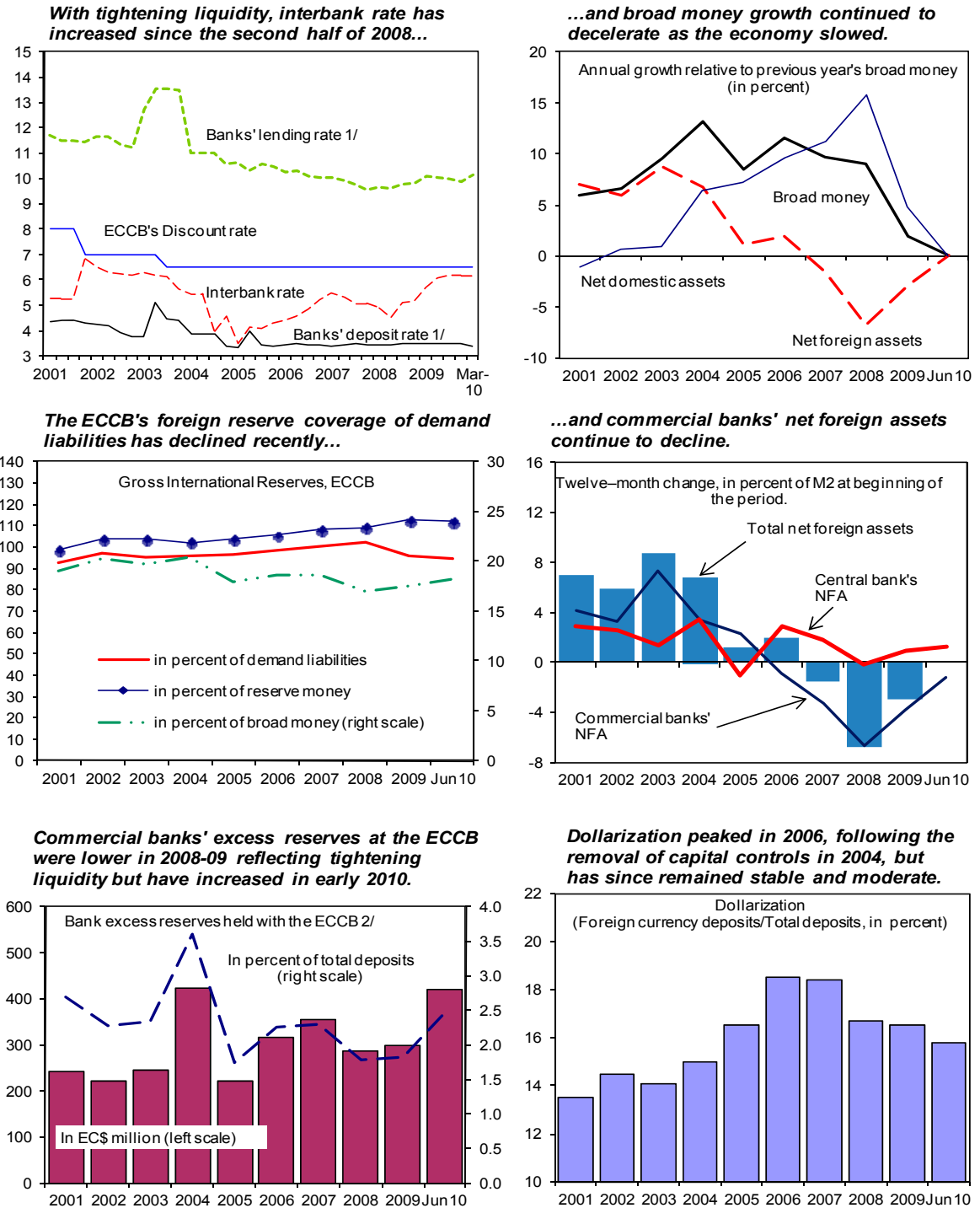
Sources: ECCB; Country authorities; and Fund staff calculations.
1/Non-tax revenue increased as a result of one-offs.

Figure 4. ECCU: Fiscal Expenditure, 1997–2009



Sources: World Economic Outlook; Country authorities; and Fund staff calculations.
 Note: Anguilla (AIA), Antigua and Barbuda (ATG), Bahamas (BHS), Barbados (BRB), Belize (BLZ), Dominica (DMA), Dominican Republic (DOM), Grenada (GRD), Guyana (GUY), Haiti (HTI), Jamaica (JAM), Montserrat (MTS), St. Kitts and Nevis (KNA), St. Lucia (LCA), St. Vincent and the Grenadines (VCT), Suriname (SUR), Trinidad and Tobago (TTO).

Figure 5. ECCU: Monetary Developments, 2001–June 2010

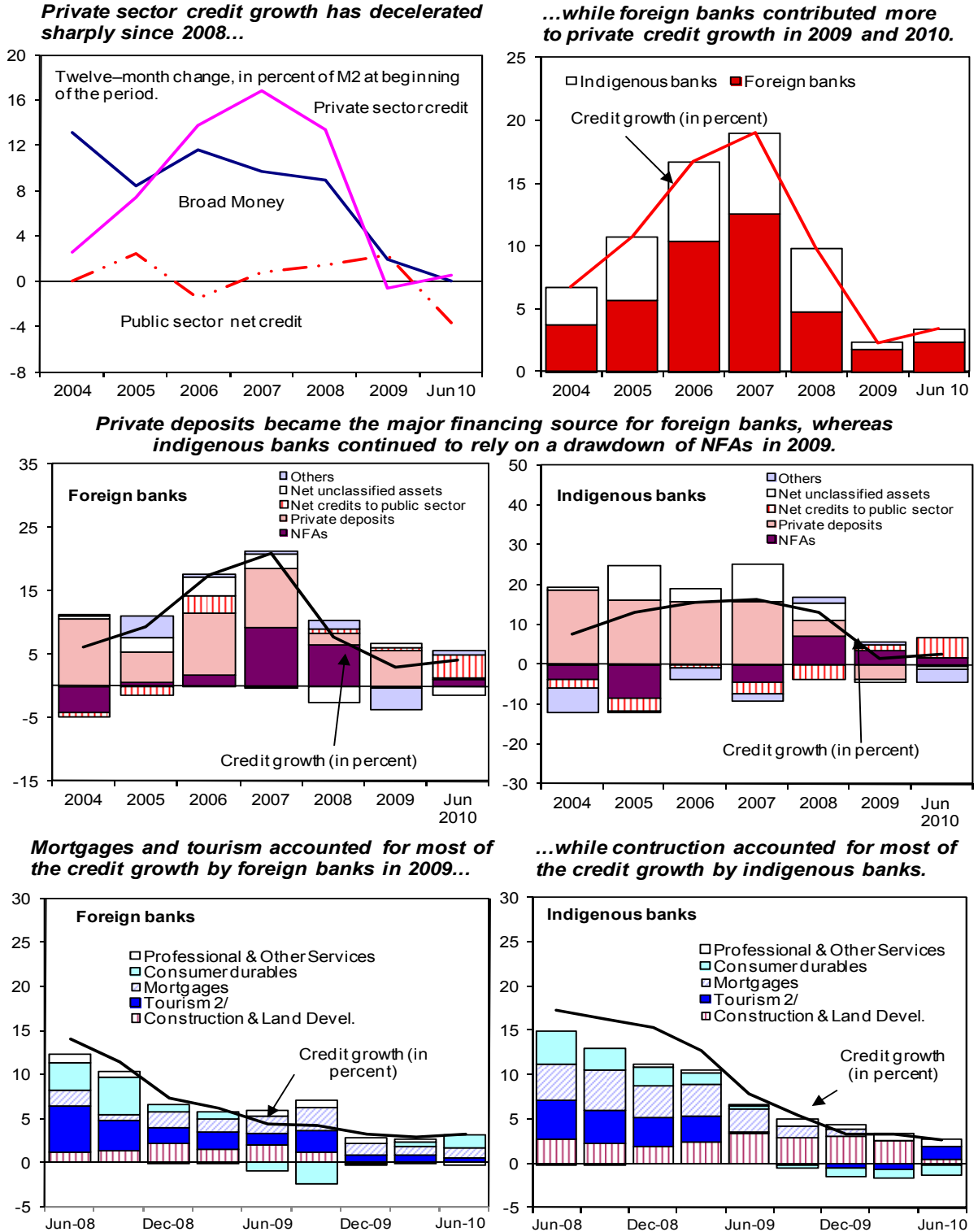


Sources: ECCB; and Fund staff calculations.

1/ There was a break in the interest rate series in 2003Q2.

2/ Excess reserves is defined as the excess of bank reserves (cash holdings and deposits of commercial banks with the ECCB) over required reserves. The current reserve requirement is 6 percent of deposits.

Figure 6. ECCU: Private Sector Credit Growth, 2004–June 2010



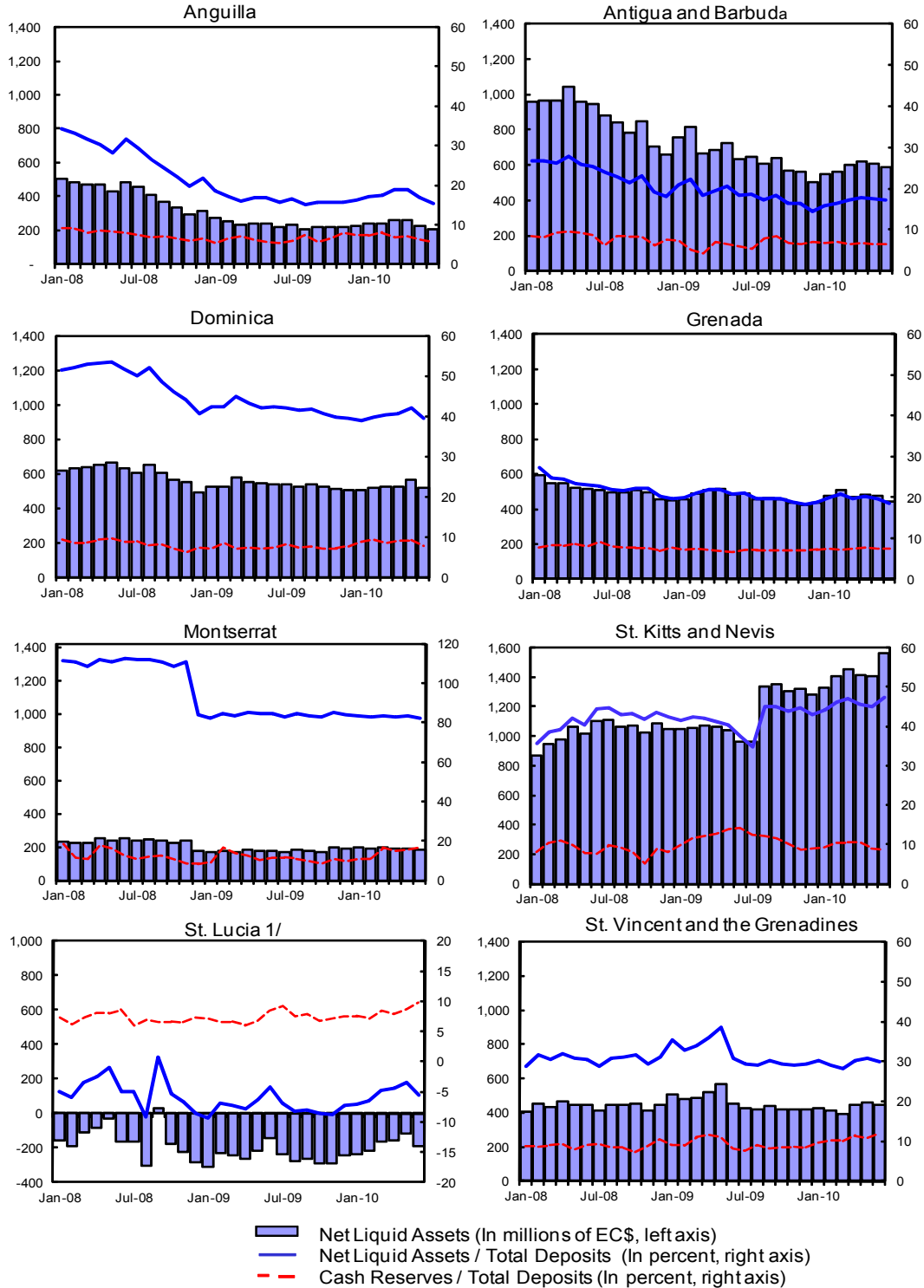
Sources: ECCB; and Fund staff calculations.

1/ Includes interbank float, reserves held with the ECCB, and other unclassified assets.

2/ Includes tourism, entertainment, and half of transport, distributive trade and professional services.

Figure 7. ECCU: Bank Liquidity, January 2008–June 2010

Liquidity has tightened considerably in most ECCU areas in 2008-09 as deposit growth declined, with the net liquid asset to deposits ratio falling below the ECCB's indicative minimum threshold of 20-25 percent in many countries.

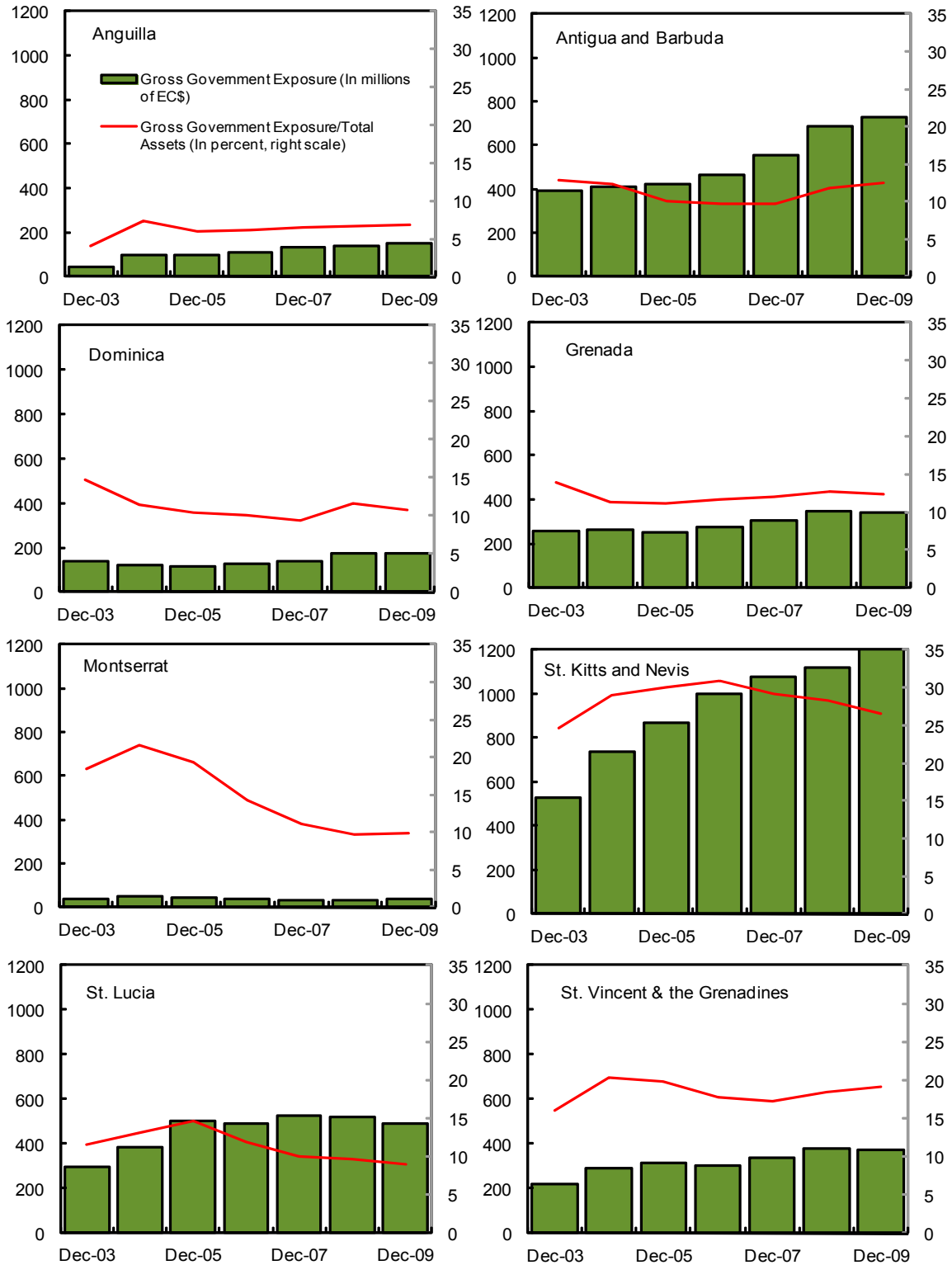


Source: ECCB.

1/ Net liquid liabilities in St. Lucia largely reflect branches of foreign banks bringing in funds to lend to the private sector.

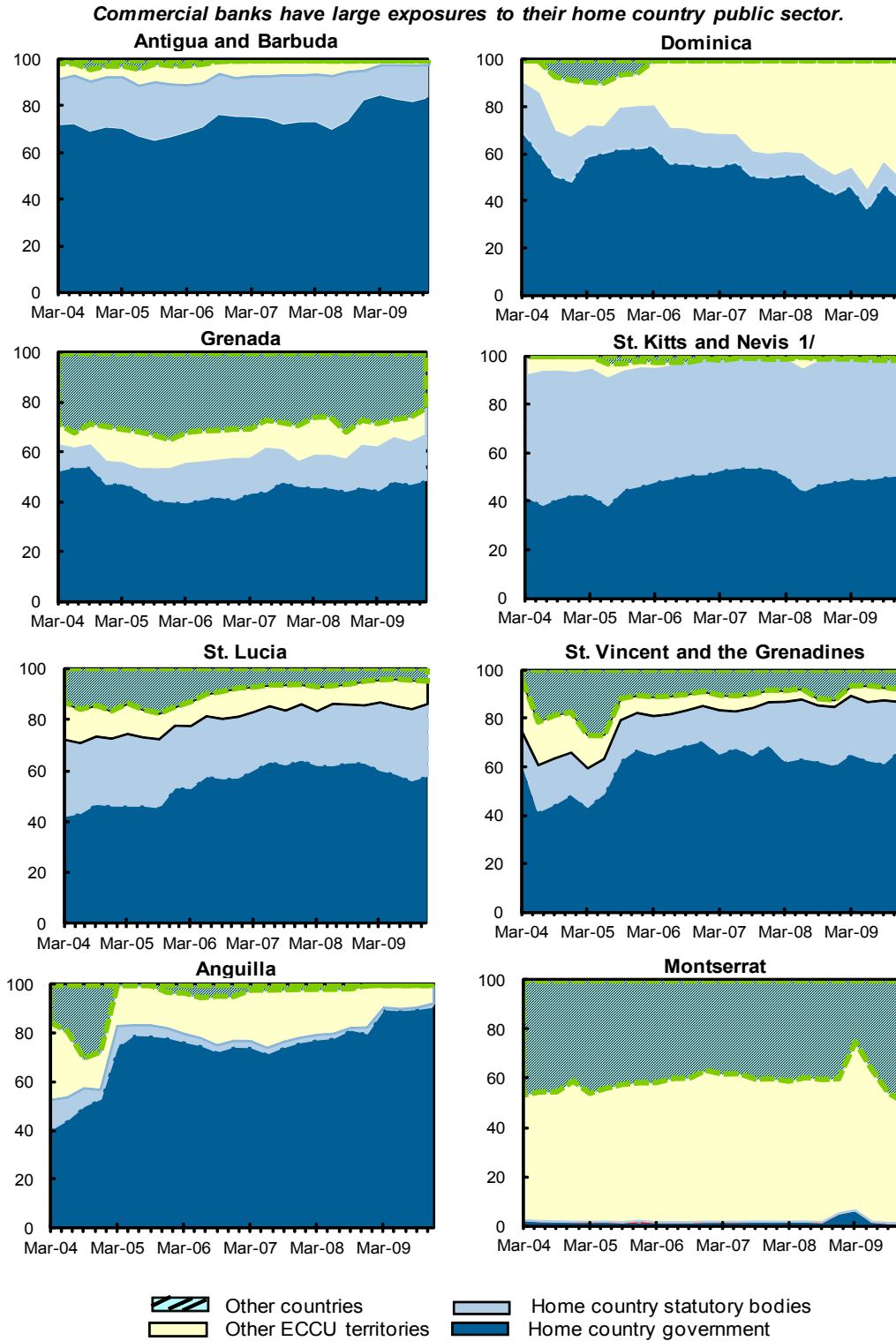
Figure 8. ECCU: Banking System's Gross Exposure to the Public Sector, 2003-09

In some countries, the banking system is highly exposed to the public sector.



Source: ECCB.

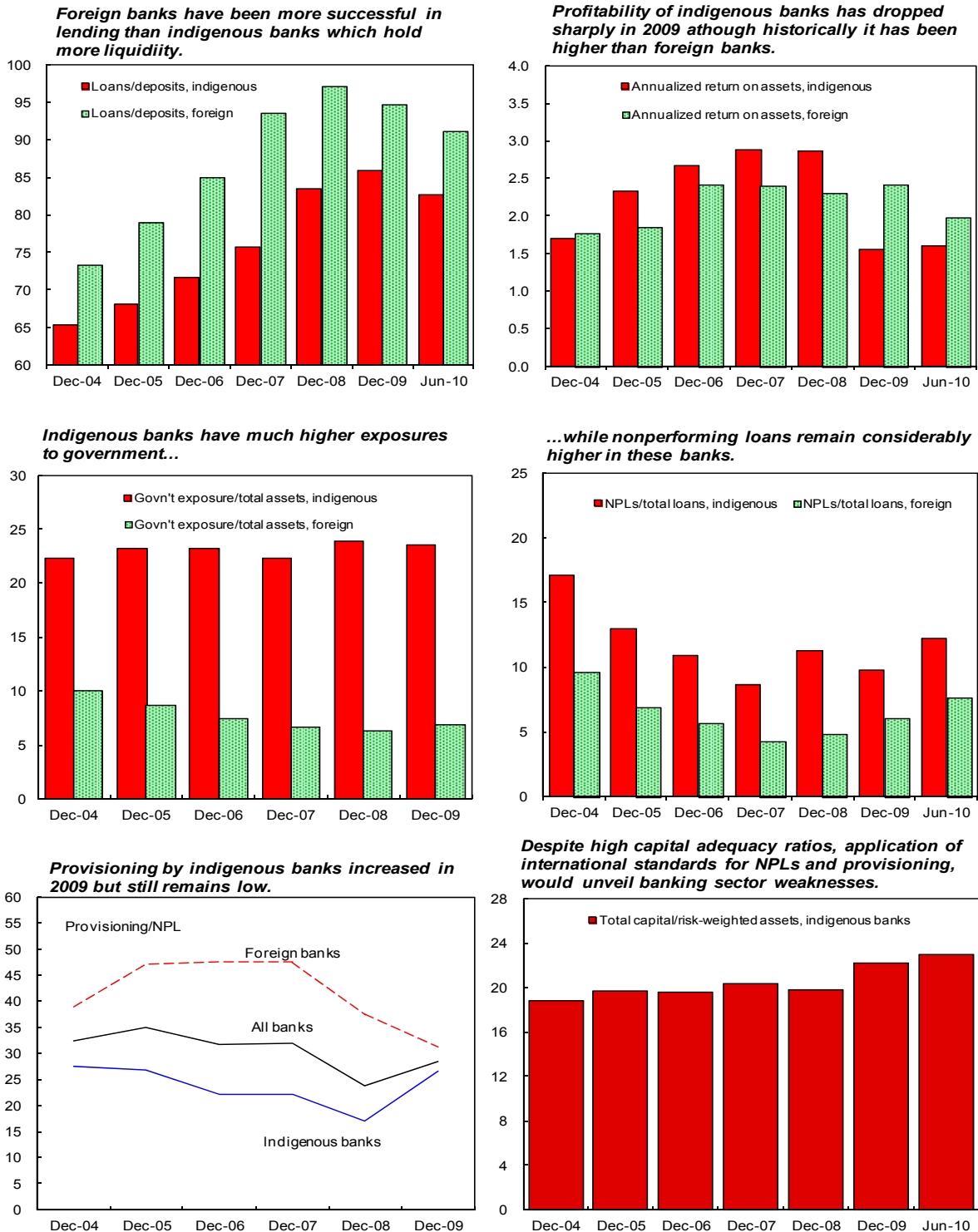
Figure 9. ECCU: Decomposition of Commercial Banks' Gross Exposure to the Public Sector, 2004–2009
(In percent of public sector exposure)



Sources: ECCB; and Fund staff calculations.

1/Monetary data on home country statutory bodies include debt of St. Kitts Sugar Manufacturing Corporation (SSMC) in the amount of EC\$350 million although it has been reclassified as central government debt by the authorities.

Figure 10. ECCU: Banking System Vulnerabilities, 2004–June 2010 1/

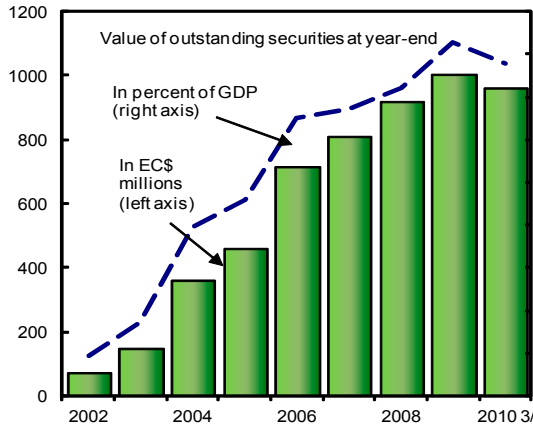


Sources: ECCB; and Fund staff calculations.

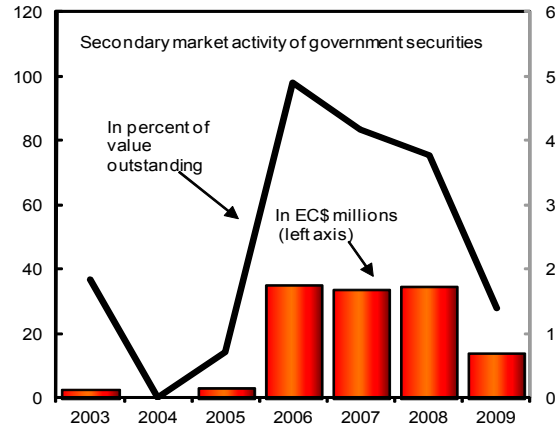
1/ Prudential indicators are reported by commercial banks, with infrequent onsite verification by the ECCB.

Figure 11. ECCU: Regional Government Securities Market (RGSM), 2002–10

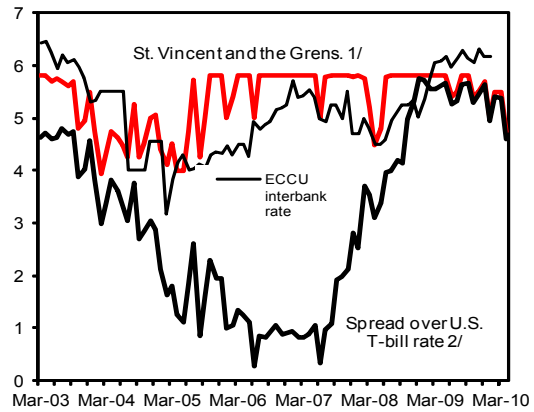
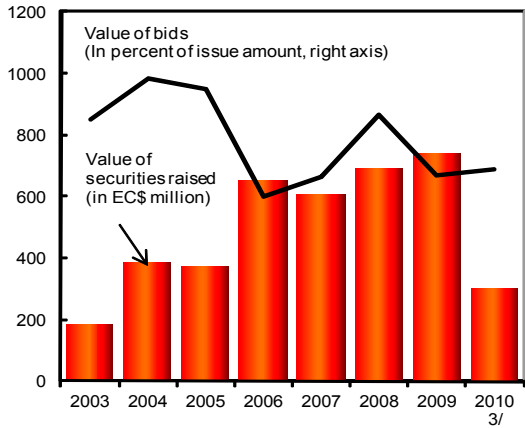
Despite steady increase in primary issuance...



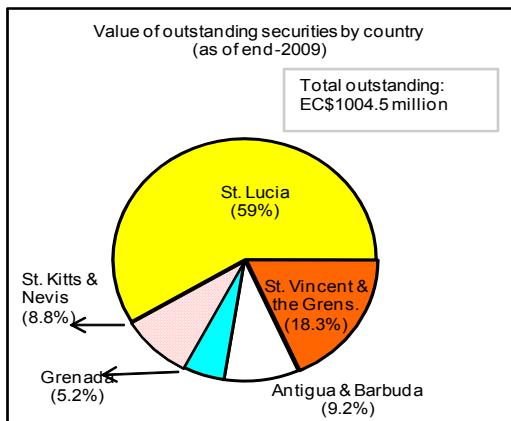
...secondary tradings remained very thin.



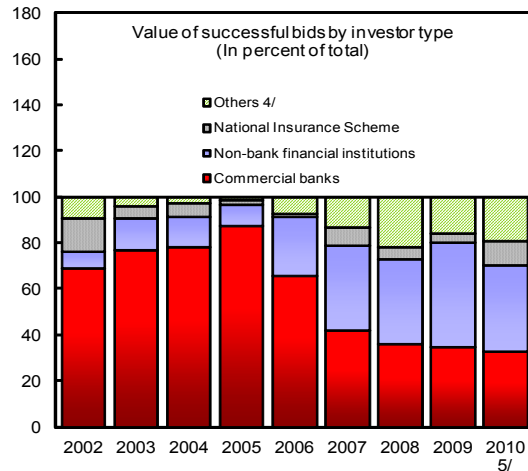
Despite high debt levels, relatively low interest rates and oversubscription suggests a captive market.



St. Lucia is the largest borrower at the RGSM.



Banks and non-bank financial institutions have been the main investors.



Sources: ECCB and ECSE.

1/ Interest rates on 3-month treasury bills by St. Vincent and the Grenadines.

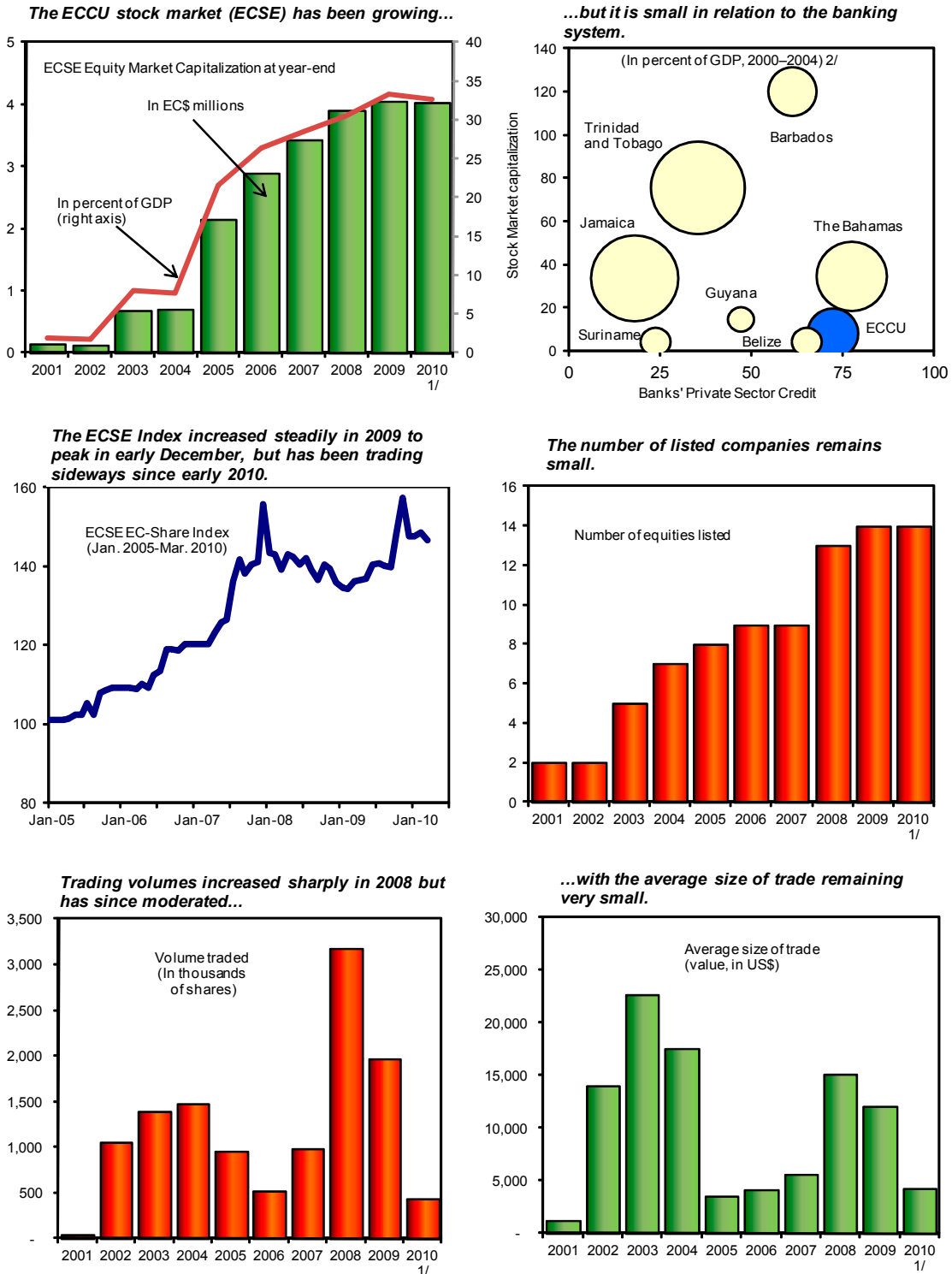
2/ Spreads on St. Vincent and the Grenadines 3-month treasury bills over U.S. interest rate on 13-week treasury bills.

3/ Stock as of June 2010.

4/ Others include business, private investors, and pension fund.

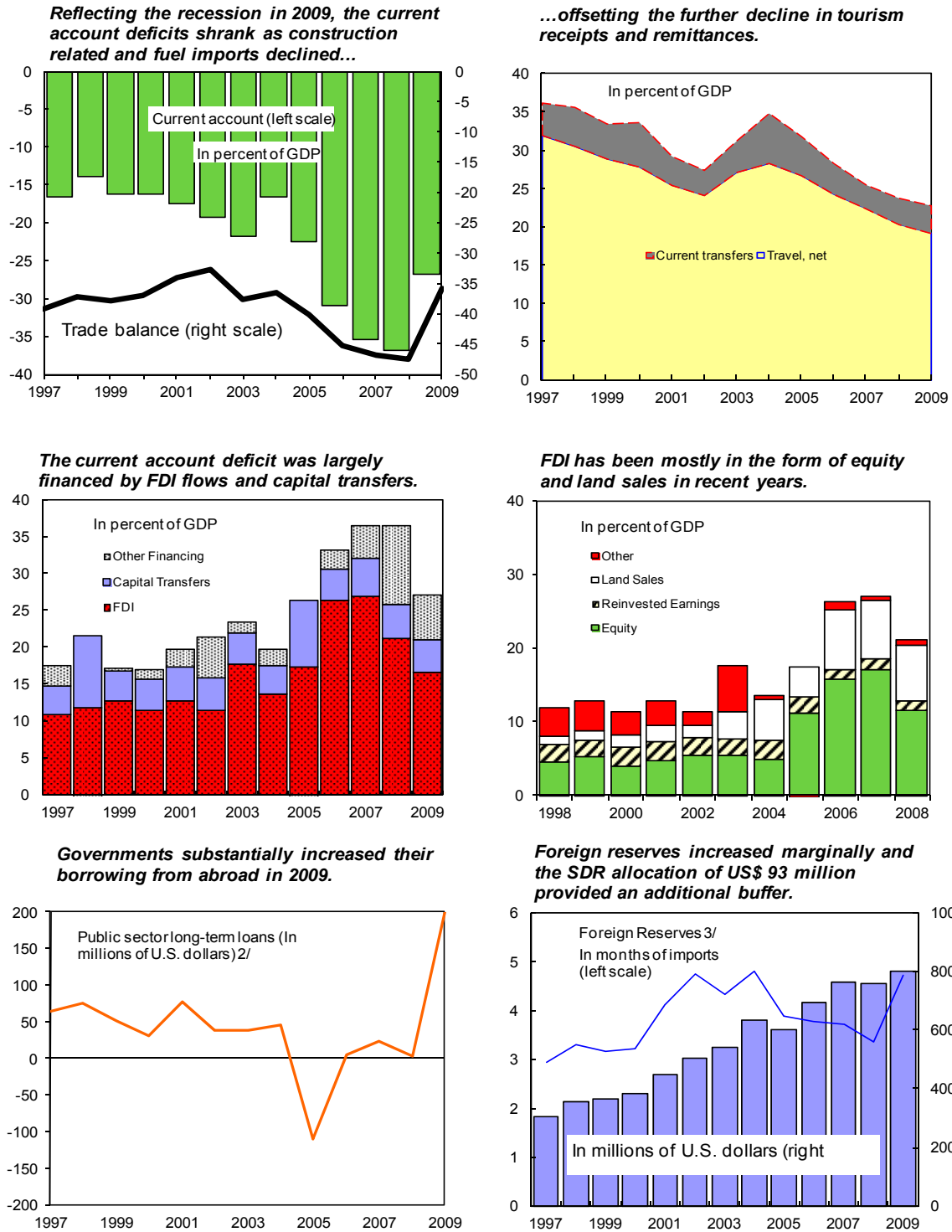
5/ Stock as of March 2010.

Figure 12. Eastern Caribbean Securities Exchange



Sources: Eastern Caribbean Securities Exchange (ECSE); Caribbean Trade and Investment Report 2005; and Fund staff estimates.
 1/ Data through end-March 2010.
 2/ Size of bubble indicates country GDP in millions of U.S. dollars.

Figure 13. ECCU: External Sector Developments, 1997–2009 1/



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

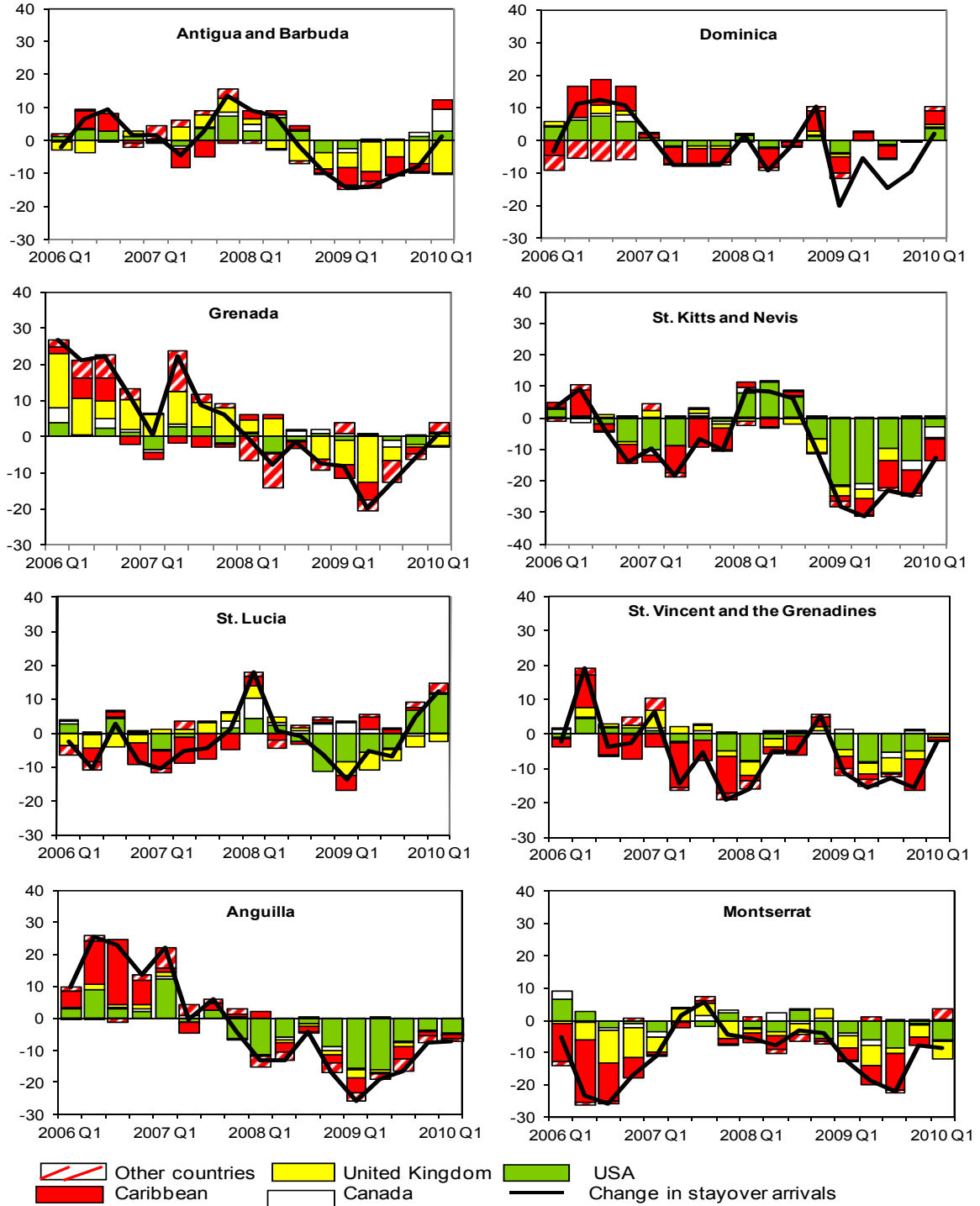
1/ Projected figures for 2009.

2/ A positive (negative) number indicates borrowing from (lending to) foreigners.

3/ Excluding SDR holdings.

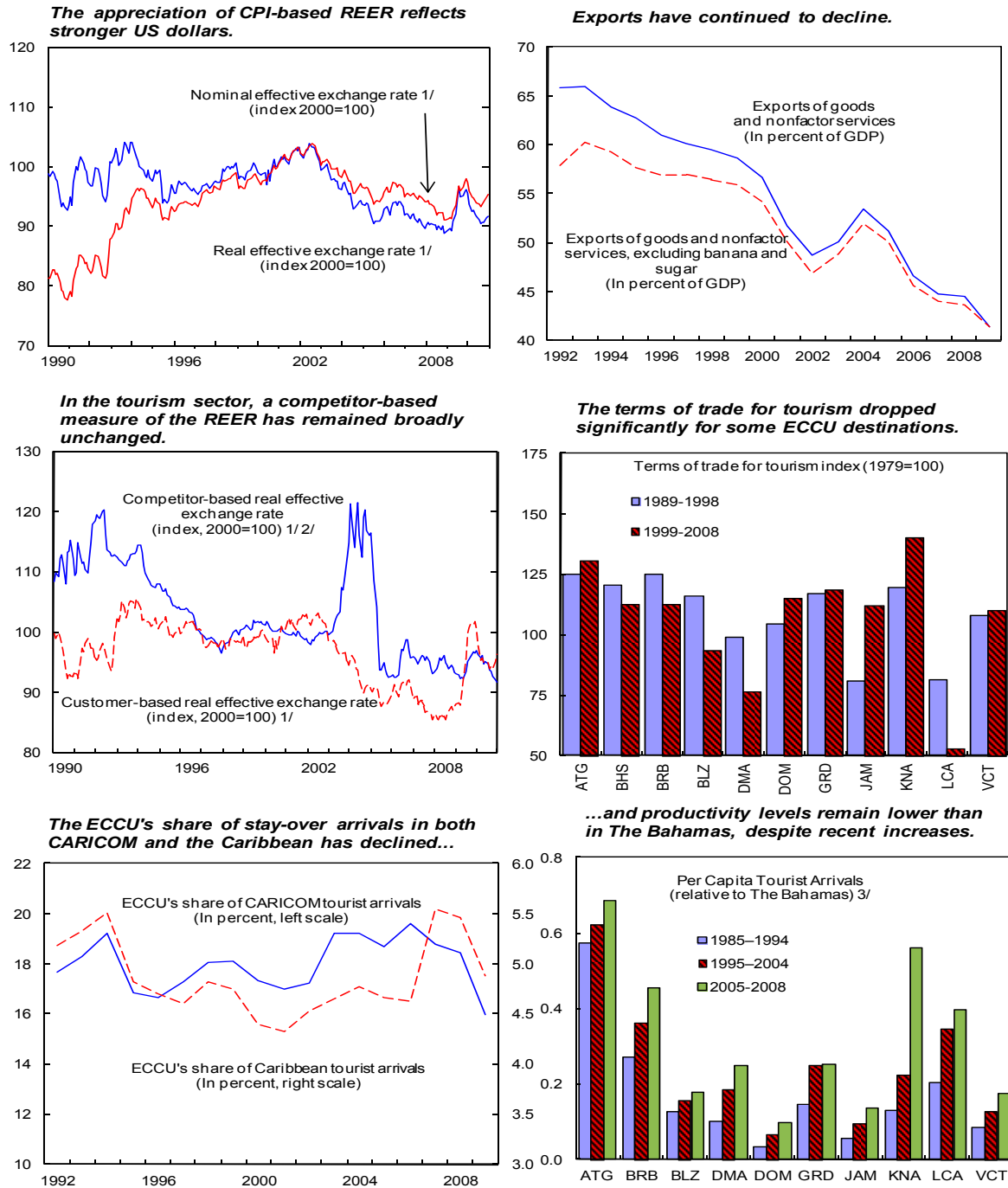
Figure 14. ECCU: Stayover Arrivals, 2006–10
(Annual percentage change)

Stayover arrivals, the major source of tourism receipts, declined in all ECCU region in 2009, reflecting weak tourism demand from the United States and the United Kingdom.



Sources: ECCB; and Fund staff calculations.

Figure 15. ECCU: External Competitiveness, 1990–2009



Sources: ECCB; Caribbean Tourism Organization; Country authorities; World Travel and Tourism Council; and Fund staff estimates.

Note: Antigua and Barbuda (ATG), Barbados (BRB), Belize (BLZ), Dominica (DMA), Dominican Republic (DOM), Grenada (GRD), Jamaica (JAM), St. Kitts and Nevis (KNA), St. Lucia (LCA), and St. Vincent and the Grenadines (VCT).

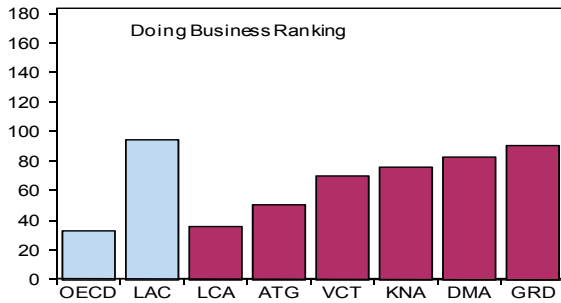
1/ An increase (decrease) indicates an appreciation (depreciation).

2/ The sharp movements in the competitor-based real exchange rate in 2002–04 were largely driven by the Dominican Republic's peso.

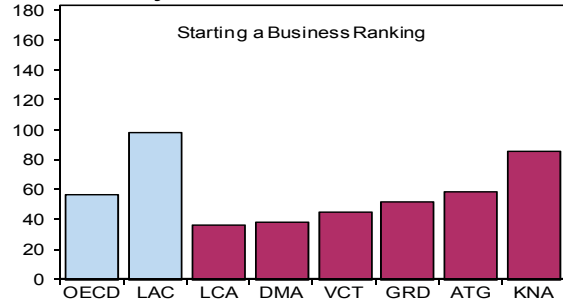
3/ A value below 1 indicates that the country's tourism sector is less productive than that of The Bahamas.

Figure 16. ECCU: Doing Business Indicators, 2009 1/

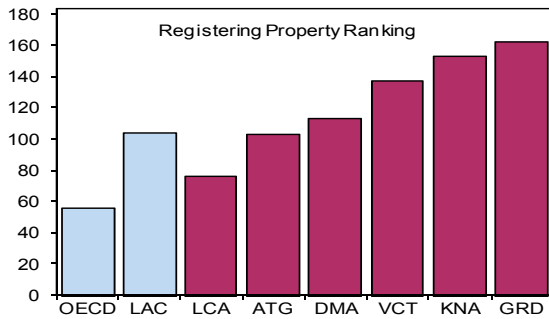
ECCU economies exhibit large disparities in the overall ease of doing business...



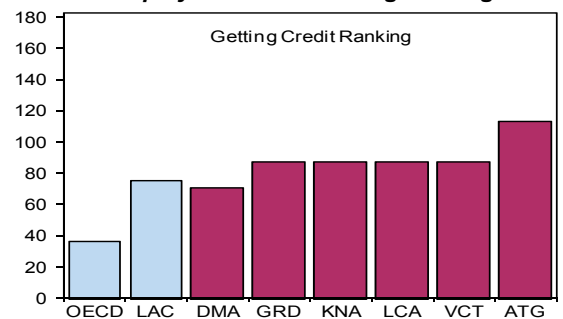
...while the procedures, time and cost involved in launching a business are relatively low...



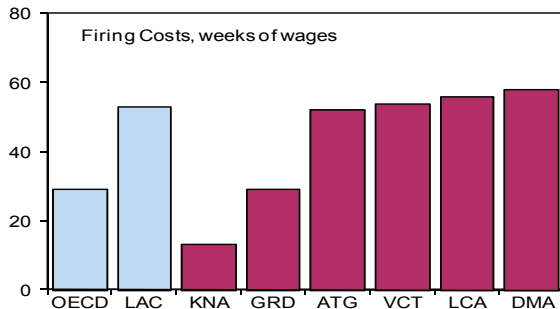
...difficulties in registering property are widespread...



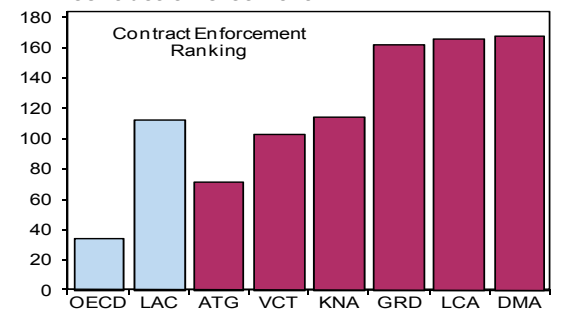
...and it is difficult to obtain credit due to less than effective collateral and bankruptcy law in facilitating lending...



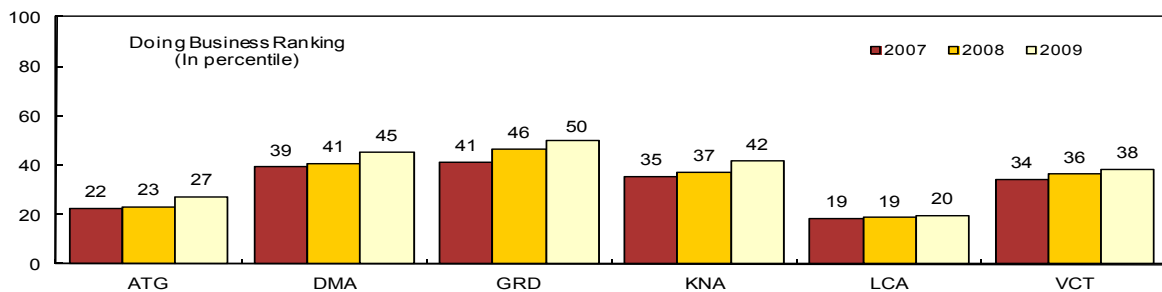
...dismissal costs are generally high...



... and so are the costs of commercial contract enforcement.



ECCU countries have been dropping in Doing Business ranking.



Sources: World Bank (2009), *2010 Doing Business Indicators*; and Fund staff calculations.
 1/ Smaller numbers represent greater ease in doing business. The 2009 rankings are across 183 countries, covering the period June 2008 through May 2009. The sample size is 178 and 181 for 2007 and 2008, respectively.
 Note: Antigua and Barbuda (ATG), Dominica (DMA), Grenada (GRD), St. Kitts and Nevis (KNA), St. Lucia (LCA), St. Vincent and the Grenadines (VCT), and Latin America and Caribbean (LAC).

Appendix Table 1. ECCU: External Debt Sustainability Framework, 2005-15
(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | Projections | | | | | | Debt-stabilizing non-interest current account 1/ -20.0 |
|-----------------------------------------------------------------------------|--------|-------|-------|-------|-------|-------------|-------------|-------------|-------------|-------------|-------------|-----------------------------------------------------------------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | |
| Baseline: External debt 2/ | 54.3 | 51.1 | 46.2 | 43.9 | 50.0 | 54.7 | 54.8 | 53.2 | 50.5 | 48.0 | 46.0 | |
| Change in external debt | -8.3 | -3.2 | -4.9 | -2.3 | 6.0 | 4.7 | 0.1 | -1.6 | -2.7 | -2.5 | -2.0 | |
| Identified external debt-creating flows (4+8+9) | -8.9 | -4.4 | -0.7 | 8.3 | 7.9 | 6.3 | 2.5 | 0.7 | -0.9 | -1.2 | -1.6 | |
| Current account deficit, excluding interest payments | 20.4 | 28.8 | 33.4 | 35.2 | 24.8 | 23.4 | 20.4 | 19.1 | 17.9 | 17.5 | 17.4 | |
| Deficit in balance of goods and services | 20.9 | 29.6 | 33.0 | 34.4 | 24.0 | 22.9 | 20.2 | 19.2 | 18.4 | 18.4 | 18.7 | |
| Exports | 51.2 | 46.6 | 44.8 | 44.5 | 41.5 | 42.6 | 44.0 | 45.0 | 45.8 | 46.4 | 47.1 | |
| Imports | 72.1 | 76.2 | 77.7 | 78.9 | 65.5 | 65.5 | 64.2 | 64.2 | 64.2 | 64.7 | 65.8 | |
| Net non-debt creating capital inflows (negative) | -26.2 | -30.6 | -32.0 | -25.7 | -20.9 | -19.4 | -19.3 | -19.0 | -19.1 | -19.0 | -19.3 | |
| Automatic debt dynamics 3/ | -3.1 | -2.5 | -2.2 | -1.2 | 4.0 | 2.3 | 1.4 | 0.7 | 0.3 | 0.3 | 0.3 | |
| Contribution from nominal interest rate | 2.1 | 2.1 | 1.9 | 1.7 | 1.9 | 2.1 | 2.2 | 2.1 | 2.0 | 2.0 | 1.9 | |
| Contribution from real GDP growth | -3.1 | -3.2 | -2.6 | -0.8 | 2.8 | 0.2 | -0.8 | -1.4 | -1.7 | -1.7 | -1.7 | |
| Contribution from price and exchange rate changes 4/ | -2.0 | -1.4 | -1.5 | -2.1 | -0.8 | ... | ... | ... | ... | ... | ... | |
| Residual, incl. change in gross foreign assets (2-3) 5/ | 0.7 | 1.2 | -4.1 | -10.6 | -1.9 | -1.5 | -2.4 | -2.3 | -1.7 | -1.3 | -0.3 | |
| External debt-to-exports ratio (in percent) | 106.0 | 109.6 | 103.3 | 98.7 | 120.4 | 128.4 | 124.5 | 118.2 | 110.5 | 103.6 | 97.7 | |
| Gross external financing need (in billions of US dollars) 6/ | 1.3 | 1.4 | 1.8 | 2.0 | 1.4 | 1.5 | 1.4 | 1.3 | 1.3 | 1.4 | 1.4 | |
| in percent of GDP | 34.4 | 34.6 | 41.0 | 42.1 | 31.4 | 31.8 | 28.7 | 27.0 | 25.4 | 24.7 | 24.3 | |
| Scenario with key variables at their historical averages 7/ | | | | | | 54.7 | 53.1 | 51.8 | 50.9 | 50.7 | 51.1 | -22.6 |
| Scenario with natural disaster 8/ | | | | | | 54.7 | 59.4 | 62.0 | 63.2 | 59.5 | 56.4 | -21.1 |
| Scenario with FDI at historical average minus one standard deviation | | | | | | 54.7 | 57.8 | 58.9 | 58.9 | 56.2 | 54.1 | -21.1 |
| Key Macroeconomic Assumptions Underlying Baseline | | | | | | | | | | | | |
| Real GDP growth (in percent) | 5.4 | 6.6 | 5.6 | 1.9 | -6.2 | -0.4 | 1.5 | 2.8 | 3.4 | 3.7 | 3.7 | |
| GDP deflator in US dollars (change in percent) | 3.4 | 2.7 | 3.0 | 4.7 | 1.8 | 2.3 | 2.1 | 2.3 | 2.3 | 2.6 | 2.2 | |
| Nominal external interest rate (in percent) | 3.7 | 4.3 | 4.1 | 3.9 | 4.2 | 4.3 | 4.1 | 4.1 | 4.0 | 4.2 | 4.3 | |
| Growth of exports (US dollar terms, in percent) | 4.7 | 0.3 | 5.0 | 5.5 | -11.3 | 4.5 | 7.1 | 7.5 | 7.5 | 7.8 | 7.8 | |
| Growth of imports (US dollar terms, in percent) | 16.6 | 16.6 | 11.5 | 7.8 | -21.1 | 1.8 | 1.7 | 5.1 | 5.7 | 7.3 | 7.8 | |
| Current account balance, excluding interest payments | -20.4 | -28.8 | -33.4 | -35.2 | -24.8 | -23.4 | -20.4 | -19.1 | -17.9 | -17.5 | -17.4 | |
| Net non-debt creating capital inflows | 26.2 | 30.6 | 32.0 | 25.7 | 20.9 | 19.4 | 19.3 | 19.0 | 19.1 | 19.0 | 19.3 | |

1/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

2/ Defined as gross debt of nonfinancial public sector. Information on private sector external borrowing is not available.

3/ Derived as $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

4/ The contribution from price and exchange rate changes is defined as $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock. r increases with an appreciating domestic currency ($e > 0$) and rising inflation (base

5/ For projection, line includes the impact of price and exchange rate changes.

6/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

8/ Natural disaster impacting half of the ECCU countries, increasing the regional CA deficit by 4 percent of GDP in 2011–13, and reducing growth by an average of 1.6 percentage points for the same period. These parameters are taken from the median impact of 12 large natural disasters in the ECCU (Rasmussen, WP/04/224).

Appendix Table 2. ECCU: Public Sector Debt Sustainability Framework, 2005-15
(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | Projections | | | | | | Debt-stabilizing primary balance 1/ -0.8 |
|------------------------------------------------------------------------------------|--------|-------|-------|-------|-------|--------------|--------------|--------------|--------------|--------------|--------------|---------------------------------------------------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | |
| Baseline: Public sector debt 2/ | 100.5 | 97.9 | 91.1 | 89.2 | 103.1 | 108.0 | 109.1 | 108.0 | 105.9 | 103.8 | 102.1 | |
| o/w foreign-currency denominated | 53.9 | 50.8 | 46.0 | 44.0 | 49.8 | 54.4 | 54.5 | 52.9 | 50.3 | 48.0 | 46.1 | |
| Change in public sector debt | -6.6 | -2.5 | -6.8 | -1.9 | 13.9 | 4.9 | 1.1 | -1.2 | -2.1 | -2.1 | -1.7 | |
| Identified debt-creating flows (4+7+12) | -4.6 | -3.5 | -4.0 | -2.1 | 12.6 | 4.8 | 0.4 | -1.3 | -2.2 | -2.6 | -1.7 | |
| Primary deficit | 0.5 | 1.2 | 0.4 | 0.2 | 3.6 | 2.1 | -0.3 | -0.6 | -1.0 | -1.1 | -0.9 | |
| Revenue and grants | 30.1 | 31.2 | 30.6 | 31.5 | 31.0 | 31.7 | 31.2 | 30.9 | 30.8 | 30.8 | 30.7 | |
| Primary (noninterest) expenditure | 30.6 | 32.5 | 31.1 | 31.7 | 34.6 | 33.7 | 30.9 | 30.3 | 29.8 | 29.7 | 29.8 | |
| Automatic debt dynamics 3/ | -5.1 | -4.8 | -4.4 | -2.3 | 9.0 | 2.7 | 0.7 | -0.7 | -1.2 | -1.5 | -0.8 | |
| Contribution from interest rate/growth differential 4/ | -5.1 | -4.8 | -4.4 | -2.3 | 9.0 | 2.7 | 0.7 | -0.7 | -1.2 | -1.5 | -0.8 | |
| Of which contribution from real interest rate | 0.3 | 1.2 | 0.7 | -0.7 | 3.2 | 2.3 | 2.3 | 2.1 | 2.3 | 2.2 | 2.9 | |
| Of which contribution from real GDP growth | -5.3 | -6.0 | -5.1 | -1.6 | 5.8 | 0.4 | -1.6 | -2.9 | -3.5 | -3.6 | -3.7 | |
| Contribution from exchange rate depreciation 5/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | ... | ... | ... | ... | ... | ... | |
| Other identified debt-creating flows | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Privatization receipts (negative) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Recognition of implicit or contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Other (specify, e.g. bank recapitalization) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Residual, including asset changes (2-3) 6/ | -2.1 | 1.0 | -2.8 | 0.2 | 1.4 | 0.1 | 0.7 | 0.1 | 0.1 | 0.4 | 0.1 | |
| Public sector debt-to-revenue ratio 2/ | 334.2 | 313.8 | 297.3 | 282.8 | 332.6 | 341.1 | 349.9 | 349.8 | 344.0 | 337.4 | 332.8 | |
| Gross financing need 7/ | 9.9 | 13.6 | 10.6 | 7.8 | 13.8 | 11.6 | 9.5 | 9.5 | 9.6 | 10.3 | 10.3 | |
| in billions of U.S. dollars | 0.4 | 0.6 | 0.5 | 0.4 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 | |
| Scenario with key variables at their historical averages 8/ | | | | | | 108.0 | 110.3 | 111.9 | 113.5 | 115.4 | 117.0 | -0.3 |
| Scenario with no policy change (constant primary balance) in 2010-2015 | | | | | | 108.0 | 111.5 | 113.0 | 113.9 | 114.8 | 116.0 | -0.9 |
| Scenario with natural disaster 9/ | | | | | | 108.0 | 112.4 | 116.7 | 121.8 | 121.8 | 122.2 | 0.9 |
| Key Macroeconomic and Fiscal Assumptions Underlying Baseline | | | | | | | | | | | | |
| Real GDP growth (in percent) | 5.4 | 6.6 | 5.6 | 1.9 | -6.2 | -0.4 | 1.5 | 2.8 | 3.4 | 3.7 | 3.7 | |
| Average nominal interest rate on public debt (in percent) 10/ | 3.8 | 4.2 | 4.0 | 3.9 | 5.1 | 4.5 | 4.3 | 4.4 | 4.6 | 4.9 | 5.2 | |
| Average real interest rate (nominal rate minus change in GDP deflator, in percent) | 0.5 | 1.5 | 0.9 | -0.7 | 3.3 | 2.3 | 2.2 | 2.1 | 2.3 | 2.3 | 3.0 | |
| Nominal appreciation (increase in US dollar value of local currency, in percent) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | ... | ... | ... | ... | ... | ... | |
| Inflation rate (GDP deflator, in percent) | 3.4 | 2.7 | 3.0 | 4.7 | 1.8 | 2.3 | 2.1 | 2.3 | 2.3 | 2.6 | 2.2 | |
| Primary deficit | 8.9 | 13.8 | 1.5 | 2.9 | 2.4 | -2.8 | -6.9 | 0.8 | 1.6 | 2.7 | 4.0 | |
| | 0.5 | 1.2 | 0.4 | 0.2 | 3.6 | 2.1 | -0.3 | -0.6 | -1.0 | -1.1 | -0.9 | |

1/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

2/ Defined as gross debt of nonfinancial public sector. Information on private sector external borrowing is not available.

3/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)] / (1+g+\pi+g\pi)$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

4/ The real interest rate contribution is derived from the denominator in footnote 3/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.

5/ The exchange rate contribution is derived from the numerator in footnote 3/ as $\alpha\varepsilon(1+r)$.

6/ For projections, this line includes exchange rate changes.

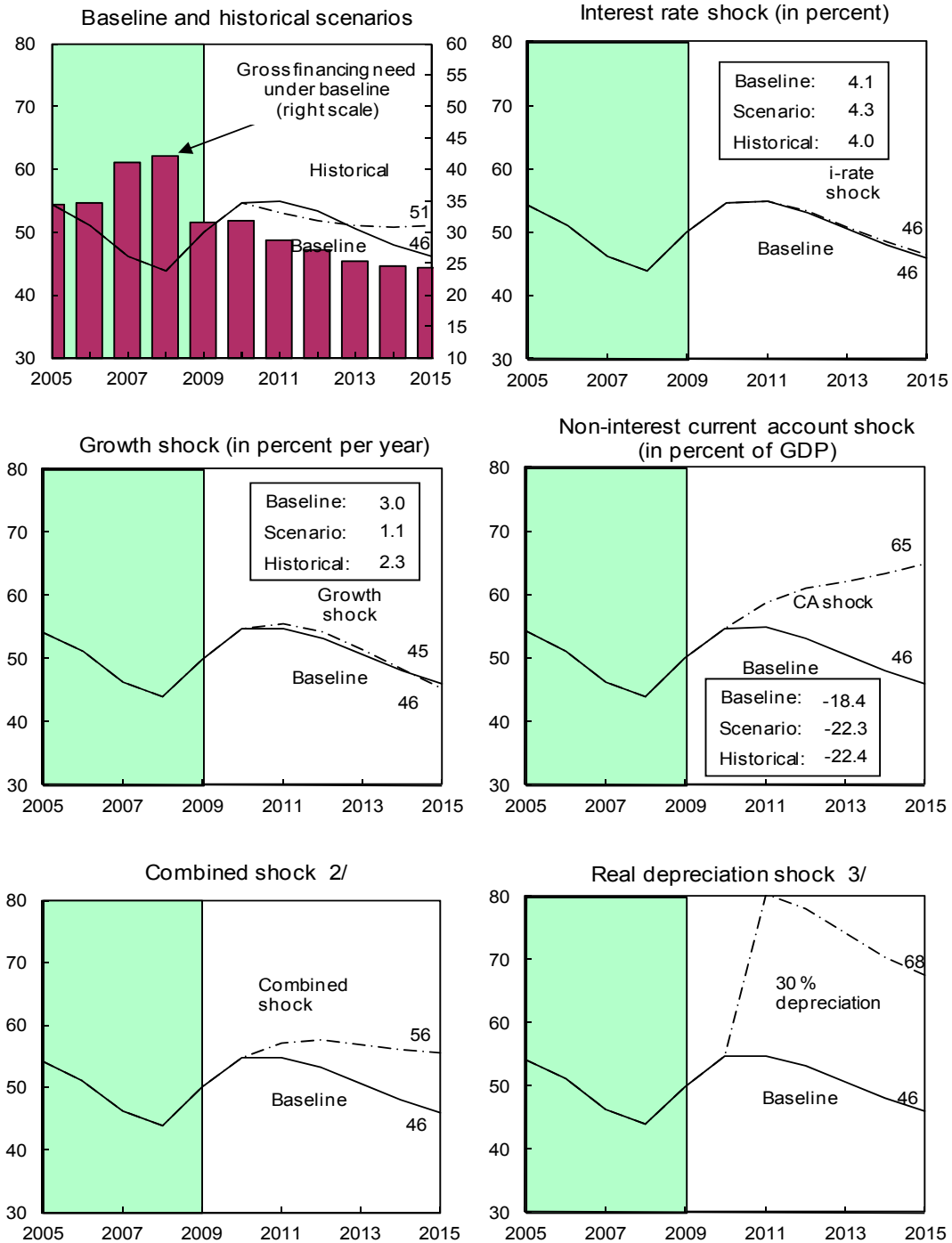
7/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

8/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

9/ Assuming that a hurricane hits half of ECCU countries, increasing their primary deficit by three percent of GDP for 2011-13 and reducing growth to zero.

10/ Derived as nominal interest expenditure divided by previous period debt stock.

Appendix Figure 1. ECCU: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



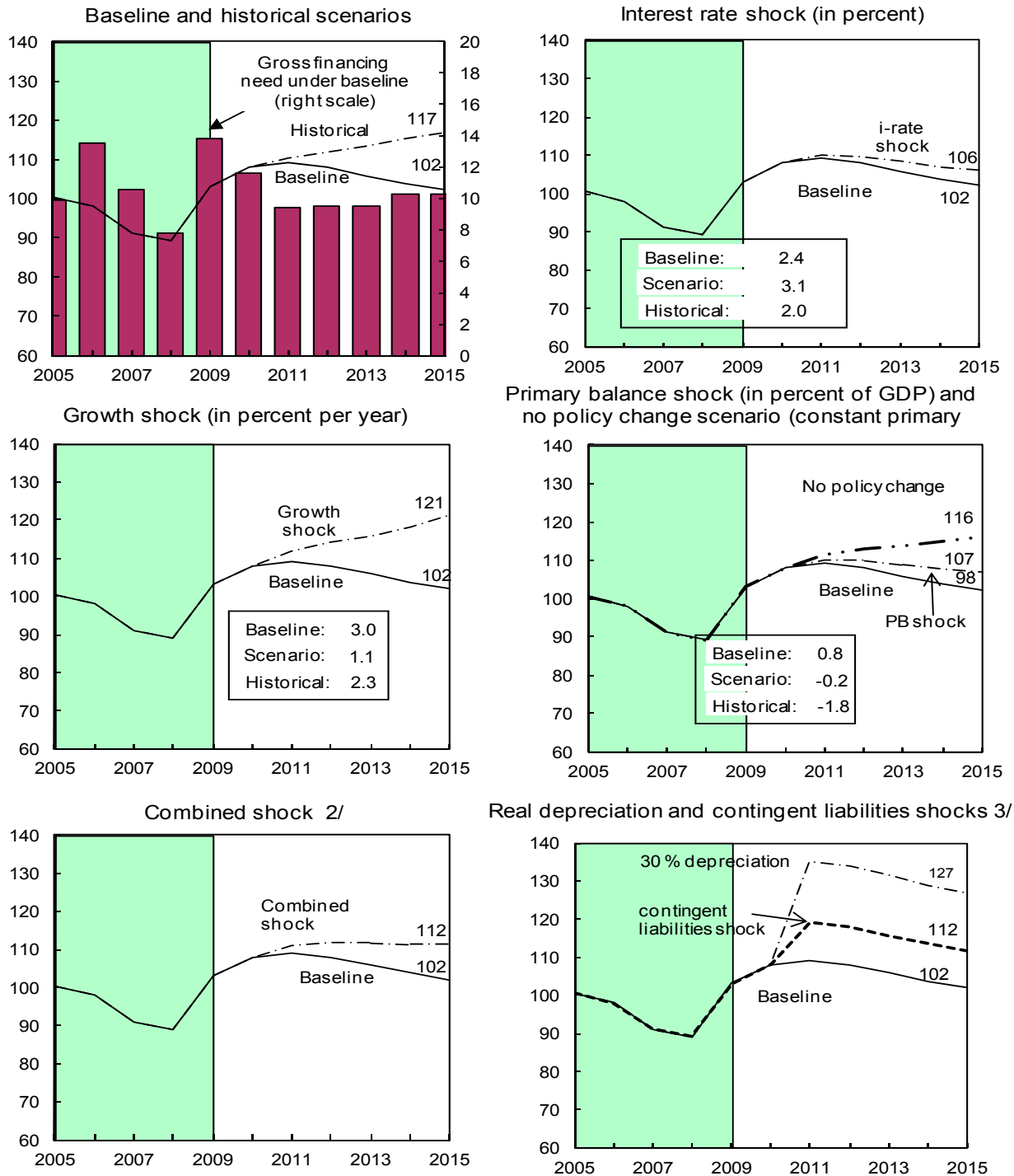
Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2010.

Appendix Figure 2. ECCU: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

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INTERNATIONAL MONETARY FUND

EASTERN CARIBBEAN CURRENCY UNION (ECCU)

**Staff Report for the 2010 Discussion on Common Policies
of Member Countries**

Informational Annex

Prepared by the Western Hemisphere Department

September 16, 2010

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Appendix I. ECCU—Relations with the Fund
(As of September 15, 2010)

I. Membership Status: Not Applicable

II. 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.

III. Safeguards Assessment

Under the Fund's safeguards assessment policy, the ECCB is subject to a full safeguards assessment under a four-year cycle. The most recent assessment was completed in July 2007, and concluded that the ECCB continues to have appropriate control mechanisms in place, which have strengthened since the first safeguards assessment completed in 2003. ECCB management places emphasis on good governance and sound controls, and has enhanced the bank's transparency and accountability since the last assessment, including the publications of financial statements that comply with International Financial Reporting Standards. The assessment made some recommendations to sustain the ECCB's safeguards framework going forward.

IV. Report on the Observance of Standards and Codes

The Report on Observance of Standards and Codes—Data Module, was completed for the ECCB in August, 2007, covered monetary statistics of the ECCB, and was published as IMF Country Report No. 07/289 on August 21, 2007.

The Financial System Stability Assessment for the ECCU was completed in April 2004, and examined the adherence of the domestic banking sector to the Basel Core Principles for Effective Banking Supervision.

In domestic banking supervision, assessors noted the need to strengthen the legislative framework to enhance the powers and autonomy of the ECCB and to generally beef up the enforcement process. More frequent and comprehensive on-site examinations are required particularly in light of the high levels of nonperforming loans and perceived gaps in data

integrity. Implementation of a risk-based capital framework for banks should be a priority, which adequately reflects risk of public sector loans. Supervisory practices should develop further in the direction of risk-focused supervision that also takes into consideration ongoing communication with external auditors and overseas supervisors. The need to establish a more formal information exchange mechanism with the home supervisor was also identified as a priority, especially with regard to the consolidated supervision of significant regional banking groups.

Some of these concerns have been addressed: new regulatory guidelines for risk-weighting nonperforming public sector exposures went into effect in January 2006, and amendments to the uniform Banking Act have been passed and gazetted in all ECCU jurisdictions. These amendments will give the ECCB enhanced regulatory powers, particularly in regards to implementation of additional regulation and prudential guidelines.

Appendix II. OECS: Relations with the World Bank Group (As of July 15, 2010)

World Bank Group Strategy: The Bank Group actively supports the 6 Bank Members of the 8 members of the Eastern Caribbean Currency Union (ECCU). The Bank Group provides lending, grants, and technical assistance to its members. Additionally all ECCU members are invited to participate in training sessions and technical meetings organized by the Eastern Caribbean Central Bank (ECCB) in conjunction with the World Bank.

The Organization of the Eastern Caribbean States (OECS) Regional Partnership Strategy (RPS) was presented to the World Bank's Board of Directors on June 8, 2010. The RPS covers the five year period July 2009–June 2014. It sets forth the terms of engagement of the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the International Finance Corporation (IFC) with the countries of the OECS, sub-regional organizations and other development partners in pursuit of the following strategic objectives: (a) building resilience; and (b) enhancing competitiveness and stimulating growth over the medium term. To help build resilience, the Bank Group will support interventions aimed at promoting fiscal and debt sustainability, protecting and improving human capital—particularly social safety nets, education and health—and strengthening climate resilience. To help enhance competitiveness and stimulate sustainable growth, it will focus its support on two critical areas: strengthening the countries' domestic financial sectors and improving access to and quality of services to create more competitive business environments. The Strategy will provide urgent remedial measures to address the crippling effects of the global and regional crises, while supporting key policy reforms that establish a platform for growth in the medium term. The planned program of support will entail new commitments totaling up to about \$120 million on IBRD terms (that is up to \$20 million for each of the six Bank members of the OECS) and up to \$73 million of IDA financing for the four IDA-blend Bank members of the OECS (Dominica, Grenada, St. Kitts and Nevis, and St. Lucia).

Bank-Fund collaboration in specific areas: The World Bank Group and the IMF continue to collaborate on the medium-term structural reform agenda and in providing technical assistance on macroeconomic management issues jointly with the Caribbean Regional Technical Assistance Center (CARTAC). Canadian International Development Agency is providing significant financing to support the Bank and Fund's efforts to strengthen economic management in the Pan-Caribbean region from which the ECCU will benefit directly. Given the impact of the financial crisis on the financial sector, the Bank and the IMF have stepped up their collaboration in this area providing on-demand technical assistance on non-banking financial sector issues and are jointly supporting the ECCU as it defines a strategy for strengthening the banking sector. The Bank and the IMF will also continue to collaborate on supporting the countries of the OECS in the preparation of their Poverty Reduction Strategies (PRS).

The Current Portfolio: Key emerging and ongoing challenges in the region over the short, medium and long term have been identified as: (1) Improving fiscal and debt management; (2) Protecting and improving human capital; (3) Reducing vulnerability to natural disasters and strengthening environmental management; (4) Enhancing competitiveness and stimulating sustainable growth; (5) Strengthening institutional and organizational capacity; and (6) Reducing crime and enhancing security. The current programming has been summarized according to the four broad thematic areas below.

Promoting Fiscal and Debt Sustainability. The OECS countries continue to have high levels of public debt, which constrains the effectiveness of public expenditures and ultimately the much needed fiscal space for economic growth. Through the *Technical Assistance Credits* for Dominica and Grenada, the Bank is supporting these governments' efforts to improve public service delivery *inter alia* in tax, customs, investment promotion, as well as land and company registries. The *OECS E-government for Regional Integration Project* will not only improve service delivery in individual countries but also regionally, given its focus on harmonizing ICT platforms. Additionally, *Economic and Social Development Policy Loans* (DPLs) for St. Lucia and Grenada support policy reforms in the areas of improved governance and public expenditure management, regulatory reform of the financial sector and improved economic management.

Protecting Human Capital. To improve the efficiency and effectiveness of social safety net programs, the Bank is supporting OECS governments in designing and implementing reform action plans under *Economic and Social DPLs*, the *Dominica Growth and Social Protection Technical Assistance Credit*, and the regional *Social Safety Nets Non-Lending Technical Assistance* which finances analysis, constituency building, action-planning and knowledge sharing. With the *OECS Skills for Inclusive Growth Projects* being implemented in Grenada and St. Lucia as well as the *OECS Education Development Projects* in Grenada and St. Vincent and the Grenadines, the Bank is supporting the governments' efforts to increase the pool of skilled persons required to meet the demands of their labor markets. The *Skills Projects* in particular seek to increase the employability of youth through public/private sector partnerships for demand-driven technical and life skills training. The HIV/AIDS Prevention and Control projects active in St. Lucia and St. Vincent and the Grenadines are aimed at developing a sustainable organizational and institutional framework for managing the HIV/AIDS epidemic over the longer term.

Strengthening Climate Resilience. The OECS suffers from several weather related hazards and rising sea levels due to climate change. As such, disaster risk mitigation and environmental management continue to be high priorities. Existing interventions that provide disaster mitigation and environmental management support include: the *St. Lucia Disaster Management II Project*, the GEF Grant *OECS Protected Areas and Associated Livelihoods Project*, and the GEF Grant *Implementation of Adaptation Measures*, which are all expected to deliver results in the short term. The Bank has also facilitated the establishment and

participation of OECS countries in the regional *Caribbean Catastrophe Risk Insurance Facility (CCRIF)*, the world's first regional catastrophe risk insurance pool.

Enhancing Competitiveness and Stimulating Sustainable Growth. Efforts to improve the business environment in the OECS, in particular by improving the delivery of key services and rationalizing the cost of the same are critical, given the high cost of doing business in the OECS. The *Telecommunications & ICT Development Project* aims at improving the access, quality, and use of telecommunications and ICT services to achieve socioeconomic development in the OECS. The *Economic and Social Development Policy Loans (DPLs)* for St. Lucia and Grenada support policy reforms for improving investment climate and regulatory environment as well as strengthening the insurance sector. There are several active grants and non-lending technical assistance projects focused on the financial sector that aid in carrying out preliminary assessments and targeted support such as the *BAICO NLTA* which supports efforts to deal with the collapse of BAICO and assist the region in taking appropriate measures moving forward.

Economic and Sector Work: The Bank has a comprehensive series of recently completed, ongoing and planned analytical and advisory activities including the following: “Towards a New Agenda for Growth”—an OECS Private Sector Financing Study (2008); the OECS Tourism Backward Linkages Study (2008); the report “Caribbean—Accelerating Trade Integration: Policy Options for Sustained Growth, Job Creation and Poverty Reduction” (2008); a CARICOM study on Managing Nurse Migration (ongoing); a preparatory study aimed at developing a Caribbean-wide Regional Energy Strategy (ongoing), and Debt Management Performance Assessment Tools (ongoing and planned).

Planned Lending or Large Grant Operations: Within the aforementioned thematic areas the following operations are planned—Debt and fiscal sustainability work may be supported by *Debt Sustainability DPLs*. Human capital development may be supported by *Strengthening Social Safety Nets Projects/SWAp* that would promote further consolidation and strengthening of safety net programs, using a results-based sector-wide approach; and *Education Sector SWAps*, that could streamline Bank support by disbursing against results defined under the national sector strategies. Climate Resilience work may be supported by the *OECS Disaster Vulnerability Risk Reduction* project, which will enhance understanding of the vulnerability of key structures and increase the resilience of critical public infrastructure; the global *Pilot Program for Climate Resilience (PPCR)*, which would aim to mainstream climate resilience in planning and investment across sectors in the four IDA-blend OECS countries; and the GEF-financed *Sustainable Financing of Marine Areas* project that would reduce climate vulnerability by supporting ecosystem-based adaptation, and establishing a regional endowment fund and national trust funds for the conservation of priority coastal and marine ecosystems and their monitoring. The work on enhancing competitiveness and stimulating growth may be supported by the *OECS Financial Sector Strengthening and Regulation Project*; the *OECS Regional Energy Regulator Program* that would establish a regional electricity regulator to improve the regulatory environment and

quality and reliability of services; and the *Caribbean Regional Communications Infrastructure Program* (CARCIP), which is a Caribbean-wide initiative aimed at increasing the availability, use and development impact of regional broadband communications infrastructure. It is expected that these interventions will be complemented by grants and technical assistance targeted at capacity–building, technical analysis, constituency building, and knowledge sharing.

Financial Relations
(In millions of U.S. dollars)

| Operations | Original Principal | Disbursed 1/ | Undisbursed ^{1/} |
|-----------------------------------------------------------------------------|--------------------|--------------|---------------------------|
| OECS-Telecom. and ICT Development Project (DMA,GRD,LCA,KNA,VCT) | 2.70 | 1.34 | 1.3 |
| OECS-HIV/AIDS Prevention and Control (VCT) | 7.00 | 2.97 | 2.39 |
| OECS-Education Development Project (GRD,VCT) | 16.1 | 10.59 | 4.67 |
| OECS-Catastrophe Insurance (DMA,GRD, LCA, VCT) | 14.20 | 12.71 | 2.38 |
| OECS E govt. for Regional Integration Project (DMA,GRD,LCA, VCT) | 9.50 | 0.69 | 8.31 |
| Total (regional projects) | 49.5 | 28.3 | 19.05 |
| Total (all projects) | 73.31 | 40.94 | 30.37 |
| Dominica | | | |
| OECS-Catastrophe Insurance | 4.50 | 3.79 | 0.71 |
| Growth and Social Protection Technical Assistance Credit | 1.45 | 1.42 | 0.08 |
| OECS-Telecommunications and ICT Development Project | 0.54 | 0.30 | 0.29 |
| OECS E govt. For Regional Integration Project | 2.40 | 0.17 | 2.08 |
| Total | 8.89 | 5.68 | 3.16 |
| Grenada | | | |
| OECS-Telecommunications and ICT Development Project | 0.54 | 0.27 | 0.26 |
| OECS-Education Development Project | 9.90 | 7.54 | 1.33 |
| OECS-Catastrophe Insurance | 4.50 | 4.42 | 0.95 |
| Public Sector Modernization Technical Assistance Credit | 3.50 | 0.99 | 2.77 |
| Grenada Technical Assistance Credit | 1.86 | 0.98 | 0.83 |
| OECS E govt. For Regional Integration Project | 2.40 | 0.17 | 2.08 |
| OECS Skills for Inclusive Growth | 3.00 | 0.38 | 2.78 |
| Total | 25.7 | 14.75 | 11.00 |
| St. Lucia | | | |
| OECS-Catastrophe Insurance | 4.50 | 3.82 | 0.70 |
| OECS-Skills for Inclusive Growth | 3.50 | 0.61 | 3.00 |
| OECS-Telecommunications and ICT Development Project | 0.54 | 0.27 | 0.26 |
| Disaster Management Project II | 10.50 | 8.26 | 1.86 |
| OECS E govt. For Regional Integration Project | 2.40 | 0.17 | 2.08 |
| Total | 21.44 | 13.13 | 7.9 |

Financial Relations (continued)
(In millions of US dollars)

| Operations | Original Principal | Disbursed 1/ | Undisbursed ^{1/} |
|------------------------------------------------------------|--------------------|--------------|---------------------------|
| St. Kitts and Nevis | | | |
| OECS -Telecommunications and ICT Development | 0.54 | 0.23 | 0.23 |
| Total | 0.54 | 0.23 | 0.23 |
| St. Vincent and the Grenadines | | | |
| OECS-Catastrophe Insurance | 0.70 | 0.68 | 0.02 |
| OECS-Telecommunications and ICT Development Project | 0.54 | 0.27 | 0.26 |
| OECS-Education Development Project | 6.20 | 3.05 | 3.34 |
| OECS-HIV/AIDS Prevention and Control | 7.00 | 2.97 | 2.39 |
| OECS E govt. For Regional Integration Project | 2.30 | 0.18 | 2.07 |
| Total | 16.74 | 7.15 | 8.08 |

Note: DMA denotes Dominica, GRD denotes Grenada, KNA denotes St. Kitts and Nevis; LCA denotes St. Lucia, and VCT denotes St. Vincent and the Grenadines.

^{1/} Amounts may not add up to Original Principal due to changes in the SDR/US dollar exchange rate since signing.

Disbursements and Debt Service
(In millions of US dollars, fiscal year ending June 30)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011* |
|-------------------|------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total | | | | | | | | | | | | |
| disbursements | 8.84 | 6.08 | 9.43 | 26.56 | 13.75 | 15.25 | 20.72 | 31.14 | 20.98 | 12.28 | 10.01 | 1.24 |
| Repayments | 0.73 | 1.10 | 1.23 | 2.27 | 3.06 | 3.64 | 4.72 | 6.38 | 8.6 | 9.25 | 9.59 | 0.09 |
| Net disbursements | 8.11 | 4.97 | 8.20 | 24.29 | 10.69 | 11.62 | 16.00 | 24.73 | 12.37 | 3.02 | 0.49 | 1.15 |
| Charges and fees | 0.05 | 0.72 | 1.44 | 2.01 | 2.22 | 2.52 | 2.70 | 3.04 | 3.54 | 3.16 | 2.65 | 0.01 |

Note: Data as of July 15, 2010.

Appendix III. Caribbean Development Bank: Overview of Activities in the ECCU

The mission statement of the Caribbean Development Bank (CDB) sets out the Bank's core mandate of mobilising resources for the social and economic development of its borrowing member countries (BMCs), toward the ultimate objective of reducing poverty. Since its inception in 1970, the CDB has approved approximately US\$3.4 billion in development resources, of which the Eastern Caribbean Currency Union (ECCU) countries have been key beneficiaries, together accounting for US\$1.3 billion, or 38.5 percent. Indeed, CDB has played a critical part in the ECCU's development progress to date, with roughly one-third of its interventions in the sub-region concentrated in infrastructure development,¹ about a quarter each in social² and multi-sector³ interventions, and the remainder in support for the productive sectors.⁴ The large share of infrastructure development, which mainly comprises road upgrades, as well support for natural disaster responses and the Caribbean Catastrophe Risk Insurance Facility (CCRIF), is partly related to the need to ensure adequate infrastructure support for investments in tourism and other productive sectors and the incidence of natural disasters in the region. Since the multi-sector category was expanded in 2006 to include policy-based loans (PBLs) in support of critical reforms, this category has become increasingly important in the Bank's portfolio, especially in respect of ECCU countries, most of whom are benefiting from macroeconomic support in the context of PBLs to survive the global economic downturn.

St. Lucia has been the largest recipient of CDB financing in the ECCU, receiving US\$ 330.9 million between 1970 and 2009, which represents approximately 24.9 percent of approvals to the sub-region and 9.6 percent of total approvals to all 18 of CDB's BMCs. Prior to 2008, CDB support to St. Lucia was mainly in the areas of infrastructure development, with interventions to improve the water supply, road rehabilitation, natural disaster mitigation and solid waste management. In 2008, CDB approved a US\$30 million PBL to St. Lucia. The loan was to assist the Government of St. Lucia in its preventative strategy to reinforce and strengthen fiscal performance; to insulate the country as much as possible from the inherent risk associated with its openness; and to improve its responsiveness, should the risks be realized. Total financing for St. Lucia approved by the

¹ The infrastructure category encompasses the Power & Energy, Water and Transportation & Communication sub-categories.

² Social interventions are mainly in the areas of education, health and housing.

³ Multisector interventions include natural hazard management, lines of credit, improving social and living conditions through the Basic Needs Trust Fund (BNTF), and activities of the Caribbean Technological Consultancy Services (CTCS) Unit (which provides technical assistance to the private sector, institutional strengthening of government departments, feasibility studies, and the assessment and implementation of transactions-based taxes).

⁴ The main productive sectors supported by CDB are Agriculture, Forestry & Fishing, Manufacturing and Tourism.

CDB in 2009 amounted to US\$20.8 million, of which US\$20.0 million was with respect to a line of credit for agriculture, industry, tourism and education, while the remainder went towards CCRIF support and technical assistance.

Grenada. Resources approved for Grenada between 1970 and 2009 totalled US\$220.0 million, accounting for 16.6 percent of total resources allocated to the sub-region and 6.4 percent of total resources approved. The development of physical infrastructure has been the main focus of CDB interventions in the country, with significant emphasis being placed on bridge and road improvement, the rehabilitation of schools, waste management improvement, and natural disaster management. During 2009, CDB approved a PBL of US\$12.8 million to assist Government in maintaining stability and continuing its macroeconomic reform agenda and US\$5 million for schools rehabilitation, as well as CCRIF support and technical assistance, for a total of US\$20.5 million in approved resources.

St. Vincent and the Grenadines. Between 1970 and 2009, resources approved for St. Vincent and the Grenadines amounted to US\$212.7 million, or 16.0 percent of total approvals for the ECCU and 6.2 percent of total approvals. With these resources, CDB has contributed significantly to the country's development in a number of areas. These include the financing of economic infrastructure to facilitate private sector development and to support economic growth; HRD; economic diversification; direct and indirect lending to the private sector in the areas of agriculture, tourism, manufacturing and housing; poverty reduction; and environmental protection and disaster risk management. The Bank has also extensively utilised its Basic Needs Trust Fund as a key modality for direct poverty intervention programmes. Lending to the country picked up substantially from around 2007, as the government implemented its debt management strategy that primarily focused on replacing higher cost domestic debt with lower cost external financing in support of fiscal reforms being undertaken at the same time. While the economy has been weathering the global economic downturn reasonably well, a sharp fall in revenue in 2009 required the country to seek budget support from the CDB through a PBL in the amount of US\$25 million. Together with a loan for a highway rehabilitation and upgrade study, this represented the bulk of the US\$25.7 million in approvals to St. Vincent and the Grenadines for 2009.

Dominica. CDB has also played an important role in helping Dominica pursue its development objectives. Cumulative funding of US\$200.2 million between 1970 and 2009 accounted for 15.1 percent of total approvals to the ECCU and 5.8 percent of total approvals during the period. Typically, interventions in Dominica have been aimed at expanding the productive capacity of the economy, as well as strengthening HRD and reducing poverty. In particular, support has been provided to strengthen economic management systems, expand agricultural output, improve critical road infrastructure, upgrade ecotourism-related sites and attractions, promote shelter development and support development in the indigenous Carib

territory. Disaster rehabilitation has also represented a consistent element of past interventions. In addition, during the severe economic downturn that Dominica experienced between 2003 and 2004, CDB provided significant funding to support the process of structural adjustment. However, since then lending to the country has stagnated somewhat, as GOCD has been hesitant to engage in borrowing, with greater emphasis being placed on attracting grant flows to fund Government's development programme. Of the US\$13.0 million approved for Dominica in 2009, US\$8.0 million was for a line of credit to the Dominica Agricultural and Industrial Development Bank (AID Bank) and USD 4 million for an Education Enhancement Project, while the remainder was shared among CCRIF support, a loan for upgrading and expanding the water supply network and technical assistance.

St. Kitts and Nevis. CDB approved funding for St. Kitts and Nevis amounting to US\$189.9 million over the period 1970–2009, which represents 14.3 percent of approvals for the ECCU and 5.5 percent of total approvals. CDB's involvement with St. Kitts and Nevis has been mainly in the areas of formulating and implementing macroeconomic, social and sectoral policies (*viz.* a PBL approved in 2006); infrastructure development to facilitate economic growth and diversification; direct and indirect lending to agriculture and industry; HRD to strengthen capacity; and emergency disaster rehabilitation. During 2009, US\$ 6.9 million was approved for St. Kitts and Nevis, of which US\$ 6.3 million represented an add-loan for the West Basseterre By-Pass Road, while the remainder was for CCRIF support and technical assistance.

Antigua and Barbuda. CDB approvals to Antigua and Barbuda between 1970 and 2009 totalled US\$102.1 million, which represented just 7.7 percent of sub-regional approvals and 3.0 percent of total approvals, reflecting the limited role played by CDB in that country in the past. Previous interventions focused mainly on education sector enhancement, along with security improvements to the air and seaports. However, in the context of the global downturn, CDB has since taken on a more active role, with the approval of a PBL in December 2009 in the amount of US\$30 million. The PBL is intended to support the country's National Economic and Social Transformation Plan, of which the restoration of fiscal and debt sustainability is a critical component through reforms in the areas of macroeconomic management, expenditure and debt management; revenue enhancement and social transformation. The remainder of the US\$30.3 million approved for Antigua and Barbuda in 2009 went toward CCRIF support.

Anguilla. Like Antigua and Barbuda, Anguilla is also a traditionally not a major recipient of CDB funding, with cumulative approvals of US\$53.3 million representing just 4.0 percent of ECCU approvals and 1.5 percent of total approvals since 1970. These funds have predominantly gone towards infrastructure development, as well as natural disaster rehabilitation. In 2009, funds approved for Anguilla amounted to US\$ 657,000, which mainly reflected Anguilla's natural disaster management response to Hurricane Omar and CCRIF

support. However, as with Antigua and Barbuda, the global context has also had adverse implications for Anguilla; consequently CDB received a request for a PBL in 2009.⁵

Montserrat. Approvals to Montserrat have been minimal following the dramatic reduction in economic activity in the wake of volcanic activity and the country's subsequent dependence on UK aid. Funding to Montserrat has totalled US\$ 18.7 million since 1970, a mere 1.4 percent of total approvals to the sub-region and 0.5 percent of total approvals. Most of the recent interventions involved improvements to the education sector, as well as some CTCS and BNTF grant assistance. Total approvals for 2009 amounted to US\$ 288,000 in grant resources.

CDB Operations
Loans, Contingent Loans, Equity and Grants
(Net, in millions of U.S. dollars)^{1/}

| | Approvals 1970–2008 | Disbursements 1970–2008 | Approvals 2009 | Disbursements 2009 |
|--------------------------------|--------------------------------|------------------------------------|---------------------------|-------------------------------|
| Anguilla | 52.7 | 32.5 | 0.7 | 0.5 |
| Antigua and Barbuda | 71.8 | 58.4 | 30.3 | 2.9 |
| Dominica | 187.2 | 154.4 | 13.0 | 5.2 |
| Grenada | 199.5 | 167.1 | 20.5 | 11.7 |
| Montserrat | 18.4 | 15.3 | 0.3 | 0.7 |
| St. Kitts & Nevis | 183.1 | 144.6 | 6.9 | 7.6 |
| St. Lucia | 310.1 | 247.2 | 20.8 | 20.0 |
| St. Vincent and the Grenadines | 186.9 | 153.2 | 25.7 | 23.4 |
| Total | 1,209.7 | 972.6 | 118.2 | 72.0 |

^{1/} All figures are net of cancellations.

⁵ The PBL in the amount of US\$55 million was approved by CDB's Board of Directors at their July 22, 2010 meeting.

Appendix IV. CARTAC: Capacity Building in the ECCU

The Caribbean Regional Technical Assistance Center (CARTAC) was established in November 2001 as a regional resource, based in Barbados, to provide technical assistance (TA) and training to beneficiary countries, currently 20.⁶ CARTAC's core areas of technical assistance include public financial management, which includes tax policy and administration, public expenditure management, macroeconomic management and financial programming, financial sector supervision, capital markets development, and economic and financial statistics. It is a multi-donor project with the IMF as executing agency.⁷ An active Steering Committee consisting of representatives from participating countries, donor agencies, CARICOM and the CDB, provides strategic guidance and ensures ownership and commitment.

The ECCU countries have been among the most active countries in requesting technical assistance and training in all of CARTAC's core areas. Again, the largest areas of CARTAC involvement in the ECCU countries have been in VAT implementation and in building capacity to undertake improved macroeconomic management. This technical assistance support has represented a significant addition to the Fund's technical assistance to the ECCU region. Highlights of CARTAC's technical assistance to the ECCU countries in the various core areas are provided below.

In the area of **tax and customs policy and administration**, CARTAC and FAD conducted a comprehensive review of the OECS tax systems and administrations in 2003. CARTAC has also undertaken full revenue assessment missions to Dominica, St. Lucia, St. Vincent and the Grenadines and St. Kitts and Nevis. Most of the ECCU countries continue to implement the salient recommendations of these reviews. In 2008, CARTAC assisted with the development of corporate strategic business plans for tax and customs departments in Grenada, St. Vincent and the Grenadines and Dominica.

The following countries have introduced a VAT: Dominica (2006), Antigua and Barbuda (2007), St. Vincent and the Grenadines (2007), Grenada (February 2010) while St. Kitts and Nevis is actively working to introduce a VAT (November 2010). CARTAC has undertaken an external evaluation of its VAT program that positively rated the outcomes of CARTAC's technical assistance. CARTAC has provided technical assistance to establish a personal income tax system in Antigua and Barbuda; significant technical assistance and training has

⁶ Anguilla, Antigua and Barbuda, The Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and Turks and Caicos.

⁷ CIDA provides over 50 percent of CARTAC's total funding, with CDB, EU, Ireland, IMF, UNDP, the World Bank, and CARTAC member countries contributing the remainder.

been provided in Antigua and Barbuda, Dominica, Grenada and St. Vincent and the Grenadines, St. Kitts and Nevis and St. Lucia related to their VAT implementation. Training has been provided in customs valuation and risk assessment in three OECS countries in coordination with CCLEC and with support from the Canadian and U.S. Customs agencies. Oversight technical assistance has been provided to St. Vincent and the Grenadines and Grenada customs, regarding their reform programs. CARTAC completed a significant Regional IT Study in the areas of tax, customs, treasury, expenditure and budget in ten Caribbean countries including ECCU countries at the request of the Canadian International Development Agency (CIDA) related to the development of their SEMCAR program. CARTAC has during 2010: (1) continued to provide pre- and/or post-VAT technical assistance to Dominica, St. Vincent and the Grenadines, Grenada, St. Lucia, and St. Kitts and Nevis; (2) undertaken a comprehensive revenue mobilization technical assistance program in Antigua and Barbuda; (3) continued to deliver targeted short-term customs oversight technical assistance to Grenada, St. Kitts and Nevis, and St. Vincent and the Grenadines in their respective customs reform programs providing strategic and modernization recommendations; (4) provided customs post clearance audit training in St. Vincent and the Grenadines, Dominica, and St. Lucia; (5) provided assistance to customs in developing new customs laws and related regulations in St. Kitts and Nevis, Grenada and Dominica; (6) provided regional training workshops with the ECCB and CARICOM on the CARICOM Tax Treaty and insurance concepts ; and (7) provided a regional workshop with ECCB on the use of a revenue authority toolkit. Further, CARTAC continues to assist five OECS countries build their capacity in the area of collections enforcement and audit through formal training, on the job coaching, and enhanced operational manuals.

In 2009, the **Public Financial Management** in CARTAC focused on budget preparation, budget execution and internal audit. Activities were a blend of TA, targeted training initiatives for capacity building, support of regional initiatives (Caribbean Public Financial Association—(CaPFA) and conferences. Technical assistance interventions concentrated on sharing experiences among countries and developing practical and sustainable solutions for each. The programme had five key areas of delivery:

- *Undertaking PFM diagnostics and supporting the development of PFM action plans.* CARTAC supported the development of PFM Reform Action Plans in Dominica and St Vincent and the Grenadines in 2009. In St. Vincent and the Grenadines, the European Union provided funding support for implementation of the country's PFM Reform Action Plan.⁸ CARTAC provided direct support in expanding the Action Plan to a more detailed activity plan and supported the PFM Reform Steering Committee in planning and

⁸ The support is in the amount of €500,000 for a period of two years commencing January 1, 2009, although access to funding was delayed until August 2009 due to negotiations between the EU and UN.

reviewing activities. In relation to budget preparation, support included development of a diagnostic report, redesign of the budget call (circular) and delivery of a strategic budgeting workshop to permanent secretaries and other senior finance officials. Extensive support was also provided to the Accountant General in designing a timely bank reconciliation process, improving accounting, and in mapping the chart of accounts to GFS 2001 and CoFOG. A PFM Information Technology Plan was also developed in consultation with officials to better design and sequence IT improvements. Support was provided to both internal and external audit culminating in a proposal for the implementation of a new Internal Audit Department to be included in the 2010 budget. Montserrat requested CARTAC support in undertaking a PEFA assessment, which was commenced in late 2009. CARTAC also convened a PEFA workshop for the region in November which was attended by all ECCU countries.

- *Strengthening the Accountant General's institution.* In addition to the support provided to St Vincent and the Grenadines, Anguilla received assistance in implementing a cash management and forecasting model⁹ and in developing annual financial statements in accordance with the International Public Sector Accounting Standards (IPSAS). St. Kitts and Nevis also received support in refining its cash management and forecasting model.
- *Strengthening the budget preparation process.* In addition to focused support in St Vincent and the Grenadines, three further countries requested assistance in delivering presentations to the Cabinet and permanent secretaries on Strategic Budgeting— Anguilla; Grenada; and St Kitts and Nevis.
- *Building stronger audit capacity.* St. Vincent and the Grenadines received support for both internal and external audit in 2009.
- *Developing sustainable capacity building in the region.* CARTAC continued to support capacity building in the region, including direct support to the Caribbean Public Finance Association (CaPFA). Mr. Isaac Anthony, Finance Secretary, St Lucia, chairs the Board and two further board members are from ECCU countries. CARTAC sponsored three meetings in 2009.

A new one-week PFM workshop was launched in 2009 and delivered five times in four countries: Anguilla; Grenada; St Kitts and Nevis (once each) and St Vincent and the Grenadines. The workshop was delivered by regional PFM experts and involves a mentoring and train-the-trainer component to support future delivery in each country. Six officials are now able to deliver these workshops in the four countries, and these officials will form an expert group for future delivery in the region and for the development of further regional educational products.

⁹ This updated earlier technical assistance in 2008.

Three regional conferences took place in 2009 with all ECCU countries in attendance. In addition to the PEFA workshop in November, a PFM conference was convened in Barbados for senior PFM officials, where the theme was consolidation of budget preparation and execution. In September, a FMIS conference was convened in Belize. The focus of these events was on sharing experiences and fostering a common reform agenda. CARTAC participated in ECCU events, including the ECCU boot camp in June 2009, and six-monthly video conferences with senior PFM officials.

In **macro-fiscal management** CARTAC and the ECCB teamed up to deliver a 3-day pension reform conference in St. Kitts and Nevis. Strategic Budgeting workshops were delivered to senior level officials or ministers in a number of ECCU member states. At the request of the ECCB, CARTAC has provided technical assistance to the ECCU member countries in developing and implementing their own home-grown programs aimed at achieving a set of fiscal/debt targets.¹⁰ Complementary assistance was also provided in the preparation of a medium-term fiscal frame in Grenada, Montserrat and St. Vincent and the Grenadines. Assistance in the preparation of Debt Sustainability Assessments (DSAs) in member countries is planned, following the regional IMF-WB workshop in July 2010. A review of the internal and external audit functions was performed in Anguilla in 2007. Quantitative pension reform workshops were also delivered in St. Kitts and Nevis and in Turks and Caicos. Assistance to strengthen the oversight and governance of statutory bodies and to better manage the associated fiscal risks was provided to Montserrat, St. Kitts and Nevis and to St. Vincent and the Grenadines.

The demand for CARTAC technical assistance in **macroeconomic programming and analysis** (MAC) has come primarily from ECCU members. In response to persistent fiscal deficits and rising public debt levels, the ECCB requested assistance from CARTAC in 2002 to help member countries in developing and implementing their own home-grown programs aimed at achieving a set of fiscal/debt targets. A key aspect of the program has been to help countries build capacity at the level of both the ministries of finance and central bank to undertake consistent macroeconomic projections. CARTAC Macroeconomic Adviser and consultants work with small teams across the ECCU to prepare macroeconomic projections under a baseline scenario; identify imbalances and quantify policy measures to address them; and prepare a framework to monitor the key quarterly targets of the program. The primary focus continued to be building capacity on a sustainable basis in macroeconomic analysis, forecasting and performance monitoring within the ministries of finance and central banks while providing assistance in the update of countries' macroeconomic framework. During 2009, a number of follow-up missions were conducted to ECCU member countries to work with local teams to update their respective macroeconomic frameworks. In addition, staff

¹⁰ The original targets were replaced in 2006 by a ceiling on the public sector debt/GDP ratio of 60 percent by 2020.

from local teams across the ECCU as well as ECCB economists attended formal training programs on *Macroeconomic Statistics for Economists: An Introduction to Macroeconomic Statistical Systems* and the joint IMF Institute/CARTAC *Macroeconomic Management and Fiscal Policy Issues* courses.

With respect to **financial sector supervision**, the focus of technical assistance has been on the nonbanking sector and the development of the single regulatory units in each of the eight ECCU countries and resolution of a failed insurance company. Specific successes are the passage of laws to enact the single regulatory units and the development and passage by many of the countries of laws pertaining to insurance, credit unions, and money services businesses. Nonbank regulatory reporting forms have been created for all nonbanks operating in the ECCU, and the nonbanks are to begin reporting on these forms quarterly in September, 2010. Previously, reporting by nonbanks was limited to the annual reports. A significant amount of technical assistance has been in the area of insurance supervision; CARTAC assisted the eight ECCU countries in developing a framework for insurance supervision which includes on-site examination training, off-site analysis, licensing, and dealing with problem institutions. For three of the eight ECCU countries, technical assistance has been provided in off-shore banking supervision, off-shore mutual funds, off-shore trust companies, and credit unions; this include on-site examinations, reporting, and off-site analysis. The single regulatory units which were just a concept three years are all functioning at a relatively high level with respect to the supervision of nonbanks. More works remains but the infrastructure, policies and procedures, and a functions system for supervision are in place and in practice. With respect to banking supervision at the ECCB, CARTAC involvement has been to develop a market risk capital charge and a mechanism to risk-profile banks. No results have been obtained in the latter two projects.

During 2009 the CARTAC program to improve **economic and financial statistics** concentrated on national accounts and price statistics projects; it also provided regional training in other areas including government finance, monetary and financial, and international investment statistics. Activities in national accounts target two main areas. The first activity, rebasing the national accounts, is assisting the ECCU countries to update their constant price GDP estimates to a more recent and relevant time period. When completed in 2010, the national accounts would also be closely aligned to the *1993 System of National Accounts (1993 SNA)*. The second activity, training staff in national accounting methods and procedures, is assisting statistical offices in developing staff capabilities for sustaining improvements. In price statistics, CARTAC's work centered on developing new consumer price index (CPI) market baskets in the ECCU countries except Montserrat which will start its program in 2010. CARTAC also conducted two CPI workshops. The first two-week workshop trained CPI compilers on the new international standards and methods contained in the *Consumer Price Index Manual, 2004*. The second was a one-week workshop for

countries that will be introducing the Price Index Processor System¹¹ as part of their CPI revision projects. In Anguilla CARTAC is assisting with development of export-import price indexes (XMPIs). The results of this project to date has been development of weights, identification of a sample of enterprises and commodities to provide prices, and provision of software for compiling XMPIs. The statistics advisers also worked closely with the ECCB, CARICOM and the Standing Committee of Caribbean Statisticians to review work plans and coordinate technical assistance in macroeconomic statistics.

¹¹ The system was developed jointly by the Statistics and Technology and General Services Departments to process collected price data and compile the CPI on a monthly basis according to the methods recommended in the *CPI Manual*.

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IMF Executive Board Concludes 2010 Discussion on Common Policies of Member Countries of the Eastern Caribbean Currency Union

On September 27, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the 2010 Discussion on Common Policies of Member Countries of the Eastern Caribbean Currency Union (ECCU).¹

Background

The ECCU region has been hard hit by the global economic downturn and is faced with a protracted recovery. Real regional Gross Domestic Product (GDP) contracted by 6 percent in 2009, reflecting a collapse in tourist arrivals and Foreign Direct Investment (FDI) financed construction activity. Continued weakness in private consumption and high rates of unemployment in the advanced economies has dampened prospects of a rapid recovery. Growth is expected to remain subdued in 2010 and recover only slowly in 2011. Inflation, which declined sharply to an average of 0.8 percent in 2009 reflecting the widening output gap and falling prices of imported food and energy, is expected to revert gradually to its long run average of about 2 percent, given the anchor of the currency peg. Risks to the outlook are tilted on the downside.

The overall fiscal deficit has increased sharply, while extremely high and rising regional public debt in the context of a regional currency board arrangement has exacerbated the region's

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 discussions, 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, collect economic and financial information, and discuss with officials the currency union's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for 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. 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>.

vulnerability to shocks. Recession-induced fiscal revenue losses, increases in public spending in most ECCU members aimed at mitigating the impact of the downturn, as well as higher debt servicing costs raised the region's overall fiscal deficit to 8 percent of GDP in 2009 from 3.5 percent of GDP in 2008. The regional public debt jumped to above 100 percent of GDP at end 2009, from an average of 93 percent of GDP in 2006-08, reverting earlier gains in debt reduction. Reflecting in large part the fiscal adjustments envisaged under Fund-supported programs with Antigua and Barbuda and Grenada—the fiscal deficit for the region is projected to decline, but remain elevated at close to 4.5 percent of GDP for 2010–15, while public debt will stay above 100 percent of GDP through 2015.

Weaknesses in the ECCU financial sector have been aggravated by the contraction of economic activity in the region and the collapse of the Trinidad and Tobago-based CL Financial Group on insurance companies, BAICO and CLICO operating in the ECCU. Private sector credit growth slowed sharply in 2008–09 and liquidity in the ECCU banking system, particularly for some indigenous banks, tightened significantly. Non-performing loans (NPLs) increased to 9.6 percent of total loans as of June 2010 in the banking system, reflecting the deterioration of loan portfolios in tourism and mortgages. Some indigenous banks' gross exposure to the government sector has been substantially, mirroring rising public sector debt in the ECCU. Despite high capital adequacy ratios, application of stricter classification for NPLs and provisioning might unveil further weaknesses

The external current account deficit is expected to narrow substantially to about 27 percent of GDP in 2009 from 37 percent of GDP in 2008. Lower imports more than offset the continued impact of lackluster tourism performance, reflecting largely the decline of FDI-financed construction-related imports and weak domestic demand. The current account deficit was financed predominately by FDI inflows, together with some public sector long-term loans and the drawdown of net foreign assets by commercial banks. The current account deficit in 2010 is projected to remain elevated at similar level to 2009, but to narrow in line with a gradual recovery in tourism receipts and fiscal consolidation over the medium term. The Eastern Caribbean Central Bank (ECCB) reserve coverage of demand liabilities declined below 100 percent in early 2009—averaged about 95 percent in the first half of 2010—but well above the central bank's legally-mandated floor of 60 percent. The Real Effective Exchange Rate (REER) appears broadly in line with current fundamentals. However, the required fiscal adjustment going forward would be associated with a depreciation of the equilibrium REER and—given the currency peg—imply adjustments in relative prices.

The Eight-point Stabilization and Growth Program, signed by ECCU governments in December 2009, serves as the basis for a coordinated regional response to the economic downturn. It focuses on the implementation of a stabilization package covering financial programs, fiscal reforms, and debt management; a stimulus package with public sector investment programs and social and financial safety nets; and a more structural focused package, comprising the amalgamation of some indigenous banks and reform of the insurance sector. Driven in part by the fallout from the economic and financial crisis, the authorities stepped up their efforts to deepen regional integration by signing the Organization of Eastern Caribbean States (OECS) Economic Union Treaty. The new OECS Treaty, to be ratified by the

respective member countries by January 2011, would pave the way for the free movement of people, goods, services, and capital among participating countries, and strengthen the institutional set up of a full-fledged economic and monetary union.

Executive Board Assessment

The Executive Directors noted that the ECCU region has been hit hard by the global economic downturn and faces a protracted recovery. The global financial and economic crisis has also exposed areas of significant weaknesses, notwithstanding reforms implemented by a number of member countries. The growing fiscal deficits, unsustainable debt levels, and stress in the financial sector need to be addressed forcefully to maintain confidence in the currency union and the currency board. Directors were encouraged by the authorities' commitment to implement comprehensive measures to stabilize the fiscal and financial sectors and put the ECCU economies on a more sustainable growth path.

Directors concurred that the urgent challenge is fiscal consolidation. They emphasized that the currency union needs to be supported by consistent fiscal policies across all its members, buttressed by an appropriate institutional framework for policy coordination. Directors welcomed the authorities' decision to translate the current debt target of 60 percent of GDP by 2020 into annual primary surplus targets, and stressed that implementation will be key. The required surpluses will vary by country, depending on the member's initial conditions. Prioritizing public investment and implementing measures to enhance expenditure efficiency and contain current spending while protecting the poor and vulnerable will be important elements of the consolidation.

Directors underscored that safeguarding financial sector stability should be a critical undertaking, in view of the anticipated slow economic recovery and the large government exposures of some banks. Along with fiscal consolidation and reduced public financing through the banking system, enhanced crisis preparedness and preemptive resolution of weak indigenous banks will be important. The regulation and supervision of the nonbank financial sector will also need to be strengthened. Further progress should be made in enacting and harmonizing financial sector legislation and in setting up single regulatory units. Directors welcomed the announced steps to resolve BAICO. They encouraged the authorities to take a more decisive and stepped-up regional approach in the case of CLICO, in close cooperation with the home supervisory authorities. They stressed that any resolution strategy should minimize fiscal costs.

Directors agreed that the currency board arrangement has provided a strong anchor and continues to be an appropriate exchange rate regime. They noted the staff's assessment that the REER appears broadly in line with current fundamentals. The needed fiscal adjustment, however, would require some depreciation of the equilibrium REER in the near term, implying an adjustment in relative prices in light of the currency peg. This will require restraint in real wage growth or even a reduction in nominal wages. Improving productivity and enhancing the business climate will be critical to maintaining competitiveness. Further strengthening regional integration will also be important.

Directors agreed that the views they expressed today will form part of their discussions in the context of the Article IV consultations for individual ECCU members that will take place until the next Board discussion of ECCU common policies.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Eastern Caribbean Currency Union: Selected Economic and Financial Indicators, 2006–10 1/

| | 2006 | 2007 | 2008 | Prel. 2009 | Proj. 2010 |
|------------------------------------------------------------------|---------------------------------------------|-------|-------|---------------|---------------|
| | (Annual percentage change) | | | | |
| National income and prices | | | | | |
| Real GDP | 6.6 | 5.6 | 1.9 | -6.2 | -0.4 |
| GDP deflator | 2.7 | 3.0 | 4.7 | 1.8 | 2.3 |
| Consumer prices, average | 4.0 | 3.3 | 6.7 | 0.8 | 2.3 |
| | (In percent of GDP) | | | | |
| Public finances | | | | | |
| Primary central government balance | -1.2 | -0.4 | -0.2 | -3.6 | -2.1 |
| Overall central government balance | -5.1 | -4.0 | -3.6 | -8.3 | -6.6 |
| Total revenue and grants | 31.2 | 30.6 | 31.5 | 31.0 | 31.7 |
| Total expenditure and net lending | 36.3 | 34.6 | 35.1 | 39.3 | 38.3 |
| Total public debt (end-of-period) | 97.9 | 91.1 | 89.2 | 103.1 | 108.0 |
| | (In percent of GDP, unless otherwise noted) | | | | |
| External sector | | | | | |
| Current account balance | -30.9 | -35.4 | -36.9 | -26.7 | -25.4 |
| Trade balance | -45.3 | -46.8 | -47.6 | -35.8 | -35.4 |
| Travel | 24.3 | 22.5 | 20.4 | 19.3 | 20.0 |
| Exports, f.o.b. (annual percentage change) | -2.5 | 4.8 | 23.7 | -9.8 | 1.3 |
| Imports, f.o.b. (annual percentage change) | 18.7 | 11.7 | 10.4 | -25.3 | 0.9 |
| Stayover visitors (annual percentage change) | 2.8 | -1.9 | -0.3 | -11.9 | 0.0 |
| Terms of trade (annual percentage change) 2/ | -10.9 | -5.2 | -17.2 | 23.2 | ... |
| Real effective exchange rate (annual percentage change) 2/ 3/ | 0.1 | -2.2 | 1.0 | 2.0 | ... |
| End-year gross foreign reserves of the ECCB | | | | | |
| In millions of U.S. dollars | 696.0 | 764.5 | 759.0 | 800.8 | 760.8 |
| In months of imports | 3.8 | 3.7 | 3.4 | 4.7 | 4.5 |
| In percent of broad money | 18.6 | 18.6 | 17.0 | 17.6 | 16.5 |
| External public debt (end-of-period) | 50.8 | 46.0 | 44.0 | 49.8 | 54.4 |
| | (Percentage change) | | | | |
| Money and credit | | | | | |
| Net foreign assets 4/ | 2.0 | -1.5 | -6.8 | -2.9 | -0.4 |
| Net domestic assets 4/ | 9.6 | 11.2 | 15.8 | 4.8 | 1.2 |
| Broad money | 11.6 | 9.7 | 9.0 | 1.9 | 0.8 |

Sources: ECCU country authorities; Eastern Caribbean Central Bank; and IMF 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 as sum of individual country data, ratios to GDP are then calculated by dividing this sum by the aggregated GDP.

2/ Excludes Anguilla and Montserrat.

3/ End-of-period (depreciation -), 1990=100.

4/ In relation to broad money at the beginning of the period.