



EASTERN CARIBBEAN CENTRAL BANK
STATEMENT ON THE INTERNATIONAL MONETARY FUND'S
PUBLICATION OF THE 2021 REPORT ON THE EASTERN CARIBBEAN
CURRENCY UNION COMMON POLICIES DISCUSSION

The Eastern Caribbean Central Bank (ECCB) welcomes the publication of the “*Eastern Caribbean Currency Union – Staff Report for the 2021 Discussion on Common Policies of Member Countries*” by the International Monetary Fund (IMF).

Over the period January to February 2021, the IMF held discussions with stakeholders across the Eastern Caribbean Currency Union (ECCU), and with the ECCB and Member Governments. This year’s discussions focused on the impact of the COVID-19 pandemic on the economies of the ECCU countries, with particular attention to the following policy areas:

- i. Fiscal resilience and debt sustainability;
- ii. Financial stability and crisis management;
- iii. Safeguarding the currency; and
- iv. Reforms for supporting the recovery, resilience and transformation of the economies.

The IMF’s findings from the regional consultations were presented to the Fund’s Executive Board for discussion on 26 April 2021.

The ECCB concurs with the IMF’s assessment of the impact of the COVID-19 pandemic on the economies of the ECCU. The impact of the COVID-19 pandemic on the ECCU is pervasive, filtering through major economic sectors, affecting the quality of life of citizens and exposing vulnerabilities that pre-date the pandemic. The IMF estimates

that the global economy contracted by 3.3 per cent in 2020, as a result of the COVID-19 pandemic. The ECCB estimates an economic contraction of 15 per cent for the ECCU in 2020.

The Tourism sector, the mainstay of the ECCU's economies, has been decimated by the pandemic. At present, the IMF projects that Tourism in the Caribbean will not return to pre-pandemic levels before 2024. As the pandemic continues to wreak havoc on the economies of the region, the outlook remains highly uncertain. In light of the region's heavy dependence on Tourism and the ongoing challenges with containing COVID-19 locally, there is a critical need for tangible and expedited support to the region to avert a worsening or lengthening of the current crisis. Efforts at all levels should be targeted at hastening recovery, facilitating the building of resilience and supporting long-term reforms.

The IMF has done a commendable job of highlighting the vulnerabilities and significant downside risks that the ECCU region faces at this junction and offers valuable insights and recommendations as articulated in the Report. The ECCB provides some further insights into the issues and policy actions that are required to provide relief and spur an economic recovery.

1. Fiscal Resilience and Debt Sustainability

The unprecedented nature of the COVID-19 pandemic forced the ECCU member countries, like other countries worldwide, to adapt quickly to deal with the inherent social, emotional, health and financial consequences. To mitigate the devastating impact and protect lives and livelihoods, member governments were required to provide fiscal support to vulnerable populations. This, coupled with the declining revenue flows as a result of the decline in the Tourism sector, led to deteriorating fiscal deficits for 2020 and 2021. The Bank estimates a 65.4 per cent drop in visitor expenditure to \$2.4 billion in 2020 from \$6.8 billion in 2019.

With the decline in revenues, deficits have widened. Compounding the fiscal situation was the need to contract additional debt of \$1 billion in 2020, with the dire implication of increasing the debt-to-GDP ratio from 67.2 per cent at the end of 2019 to 85.6 per

cent at the end of 2020. This difficult debt position led to the Monetary Council decision in February 2021 to defer attainment of the debt target of 60 per cent from 2030 to 2035.

The pandemic has intensified the necessity for fiscal buffers to enhance the resilience of the economies. As fiscal adviser to the member governments, the ECCB continues to encourage the adoption of fiscal resilience frameworks and recognises the recent efforts of Dominica, Saint Lucia and Saint Vincent and the Grenadines towards the enactment of their frameworks. The Bank continues its appeal to the international community to explore options for measuring and incorporating vulnerability into decisions regarding access to concessional and resilience funds, particularly for small states. In a similar manner, the Bank remains a proponent of disaster-linked clauses in debt contracts for vulnerable states.

2. Financial Stability and Crisis Management

The ECCB continued to play a critical role in maintaining financial stability, and ensuring effective regulation and supervision of institutions during the pandemic. Since the onset of the pandemic, the financial system has remained stable and liquidity levels continue to be high. The introduction of the loan repayment deferral programmes by the ECCU Bankers' Association, supported by the ECCB, provided significant relief to households and businesses affected by the pandemic.

In May 2020, the Bank successfully completed implementation of its Risk-Based Supervision (RBS) Framework. Furthermore, work is advancing on the Bank's Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Supervision Framework and the Basel II/III framework, aimed at enhancing the capital position of licensees.

At the macroprudential level, the Bank has advanced work towards the establishment of an *Optimal Regulatory Framework* for the financial sector. Work has commenced on the development a Regional Standards Setting Body to aid with the harmonization of regulatory and supervisory approaches in the financial sector. Additionally, the Bank

recognises the importance of crisis management plans and is reviewing the adequacy of its crisis tools and frameworks to ensure timely and coordinated policy responses for crisis resolution.

3. Safeguarding the Currency

Despite the challenges brought on by the pandemic, the EC dollar has remained resilient. This demonstrates the importance of ensuring sufficient reserve buffers to cushion exogenous shocks to the Currency Union. As at 23 April 2021, the backing ratio for the currency stood at 96.9 per cent - far above the legal requirement of 60 per cent established in the ECCB Agreement and the operational target of 80 per cent. The Bank has extended financial support to member governments to assist with their response to the pandemic within the context of the legal requirements surrounding credit provision in the ECCB Agreement. The ECCB remains cognisant of the need to maintain a robust backing ratio and will continue to be guided by its legal and operational framework.

4. Reforms for Supporting the Recovery, Resilience and Transformation of the Economies

Recognising the need for targeted interventions for aggressively addressing the social and economic fallout from the pandemic and building resilience in the ECCU economies, the ECCB articulated a *Programme of Action for Recovery, Resilience and Transformation*, which was approved by the Monetary Council at its 97th meeting. The Programme includes structural reforms at the national and regional levels and serves as a roadmap for repositioning the region for recovery, and sustainable and inclusive growth. Key to the reform agenda is the continuing efforts to embrace digitization and digital transformation. The public launch of the DCash pilot by the Bank in March 2021 represents a significant milestone in this direction and the continued rollout of the World Bank's Caribbean Digital Transformation Project (CARDTP) is expected to significantly propel the efforts of member countries in building a digital economy.

Acknowledgements

The Bank expresses its gratitude to the IMF staff who participated in the regional consultations, and prepared the Staff Report and accompanying documents. The ECCB

also appreciates the support provided by the Office of the Executive Director for Canada, Ireland and the Caribbean, and for the interventions of other Executive Directors of the IMF. The Bank takes this opportunity to express its commitment to continuing the productive engagement and collaboration with the IMF on the key policy issues for the region.

The IMF's "Eastern Caribbean Currency Union—Staff Report for the 2021 Discussion on Common Policies of Member Countries" is available on the [IMF website](#).

Eastern Caribbean Central Bank

May 2021

For more information concerning this release, please contact the following:

Eastern Caribbean Central Bank

P O Box 89, Basseterre, St Kitts

**Contact: Shermalon Kirby, Acting Director, Corporate Relations
Department**

Phone: (869) 465-2537

Fax: (869) 465-9562

E-mail: info@eccb-centralbank.org

Website: www.eccb-centralbank.org