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EASTERN CARIBBEAN CURRENCY UNION

May 2025

2025 STAFF REPORT FOR THE 2025 DISCUSSION ON COMMON POLICIES OF MEMBER COUNTRIES—PRESS RELEASE; AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV Consultation with member countries forming the ECCU, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on February 6, 2025, 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 April 9, 2025.
- A **Supplement** updating information on recent developments.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

- Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR25/135

IMF Executive Board Concludes the 2025 Discussions on Common Policies of Member Countries of the Eastern Caribbean Currency Union

FOR IMMEDIATE RELEASE

Washington, DC – May 8, 2025: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with member countries on common policies of the Eastern Caribbean Currency Union (ECCU). The Board considered and endorsed the staff appraisal without a meeting.[2]

The currency union has provided a strong anchor for macroeconomic stability. In 2024, strong tourism performance and continued infrastructure investments have supported robust growth of 3.9 percent, and inflation moderated to below 2 percent in tune with global trends. This has facilitated a moderate reduction in the currency union's fiscal and external imbalances, although public debt remains high at above 71 percent of GDP and the post-pandemic trend of narrowing of sizable current account deficits has stalled. The ECCB's stable reserves underpin a strong currency backing ratio. The ECCU financial system has remained stable, though exhibiting legacy asset quality and credit condition weaknesses.

The union's recent growth momentum is projected to wane. Increasing constraints to tourism capacity and completion of major infrastructure projects are set to slow real GDP growth to around 2½ percent over the medium term. Modest growth prospects reflect weak productivity and local investment, as well as headwinds from ageing populations, a shrinking labor force, and constrained fiscal space for public investment in most union members. Fiscal and external imbalances are projected to narrow over the medium term, reflecting in part completion of import-intensive public investment projects.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. Staff hold separate annual discussions with the regional institutions responsible for common policies in four currency unions—the Euro Area, the Eastern Caribbean Currency Union, the Central African Economic and Monetary Union, and the West African Economic and Monetary Union. For each of the currency unions, staff teams visit the regional institutions responsible for common policies in the currency union, collects economic and financial information, and discusses with officials the currency union's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis of discussion by the Executive Board. Both staff's discussions with the regional institutions and the Board discussion of the annual staff report will be considered an integral part of the Article IV consultation with each member.

[2] The staff report reflects discussions with the authorities during January 8-16 and January 27-February 10, 2025, and is based on the information available as of March 31, 2025. It, therefore, does not reflect the impact of the escalation of trade tensions on and after April 2, 2025. Based on information available until April 29, 2025, and covered in the Staff Supplement, the thrust of the staff appraisal remains unchanged.

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Risks to the outlook remain mostly on the downside amid a highly uncertain external environment. As reported in the April World Economic Outlook, the escalation of trade tensions and high levels of policy uncertainty are a major negative shock to global economic activity. For ECCU economies, increased global trade and geopolitical tensions could give rise to disruptions to tourism and FDI inflows and renewed inflationary pressures. High public debt, persistent current account deficits and weaknesses in the local financial system amplify vulnerability to recurrent ND shocks alongside the uncertain outlook for future citizenship-by-investment inflows.

Executive Board Assessment[3]

The ECCU has achieved a strong rebound from successive adverse shocks. Strong tourism performance and continued infrastructure investments have supported robust post-pandemic growth, while inflation has moderated in tune with global trends. This has facilitated a moderate reduction in the currency union's fiscal and external imbalances, although public debt levels and current account deficits remain high in several members. The ECCU's external position is assessed as weaker than implied by fundamentals and desirable policies, but the current account deficits remain fully financed and the stability of the ECCB's reserves underpin a strong currency backing ratio. The financial system has remained stable, albeit exhibiting continued asset quality and credit condition weaknesses.

Growth momentum is nonetheless projected to wane and risks to the outlook remain mostly on the downside. Increasing constraints to tourism capacity and completion of major infrastructure projects are set to slow growth to around 2½ percent over the medium term. This modest growth potential reflects weak productivity and local investment, as well as headwinds from ageing populations, a shrinking labor force, and constrained fiscal space for public investment in most union members. Downside risks to the outlook are significant amid a highly uncertain external environment, where increased trade and geopolitical tensions could give rise to renewed inflationary pressures and disruptions to tourism and FDI inflows. High public debt, persistent current account deficits, and weaknesses in the local financial system amplify vulnerability to recurrent natural disaster (ND) shocks alongside the uncertain outlook for future Citizenship-by-Investment (CBI) inflows.

Achieving more robust, resilient, and inclusive long-term growth would support the currency union's fiscal and external sustainability and raise living standards. To support this objective, common regional policies should be anchored in building economic, fiscal, and financial resilience and addressing supply bottlenecks that underpin the recent decades' downward trend in the region's growth potential.

[3] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

A key policy priority is alleviating the region's structural growth impediments, which calls for a coordinated multipronged approach. Addressing frictions to employment and skills development requires a renewed effort to attune human capital to economic needs and development priorities through vocational training and modernized education systems, complemented by active labor market policies and improved access to child and elderly care. Common policies can also enhance the scale, resilience, and efficiency of the region's capital stock by helping to accelerate energy transition to local renewables, optimize the CBI funding model, and increase ND preparedness. Substantial productivity gains may also be achieved through cooperative efforts to address bottlenecks to innovation and allocative efficiency, including by digitalizing key services, streamlining licensing and administrative processes, and strengthening financial intermediation.

Fiscal policies should remain closely focused on rebuilding buffers, reducing public debt consistent with the regional debt anchor, and improving resilience to shocks. Region-wide adoption of strong medium-term fiscal frameworks (MTFFs) embedded with well-designed fiscal rules and credible policy plans would support sustainability objectives and create policy space for growth-enhancing social and resilience investment. Comprehensive fiscal resilience strategies, including adequate disaster-financing frameworks, can help alleviate periodic ND disruptions to debt sustainability and support the region's growth resilience. Strengthening fiscal management of uncertain CBI revenues can similarly alleviate risks and facilitate fiscal planning. These efforts can be supported by more institutionalized regional oversight and continued strengthening of national fiscal institutions.

Enhancing financial system resilience and reducing persistent credit-frictions can support a more conducive environment for growth-supporting local investment. Regional policy priorities include reducing vulnerabilities from legacy bank balance sheet weaknesses, mitigating risks from rapid credit union expansion, building readiness to manage risks from high dependency on global reinsurance, and strengthening national AML/CFT frameworks. Common minimum NBFI regulatory standards under the planned Eastern Caribbean Financial Stability Board (ECFSB) will be an important step toward their more unified oversight, although a more centralized supervisory structure would better facilitate management of regional stability risks. Coordinated efforts to reduce institutional frictions in local credit markets and support small ECCU businesses' bankability can help address structural challenges in financial intermediation, revive local credit and investment, and foster development of a more vibrant private sector.

Strengthening economic data could significantly improve regional policy design and risk management. Priorities include addressing shortcomings in coverage, quality, and timeliness of key national and external accounts and reducing significant blind spots in areas such as the regional labor markets and CBI flows. Greater leveraging of synergies in regional data compilation and processing could help address persistent resource and capacity gaps.

Table 1. ECCU: Selected Economic and Financial Indicators, 2020-2026 1/

					Est.	Proj.	
	2020	2021	2022	2023	2024	2025	2026
	(Annual percentage change)						
Output and Prices							
Real GDP	-17.6	6.5	11.8	3.7	3.9	3.5	2.7
GDP deflator	-2.2	4.4	4.1	3.3	2.7	1.7	2.1
Consumer prices, average	-0.6	1.7	5.6	4.0	2.3	1.9	2.0
Monetary Sector							
Net foreign assets	6.1	16.5	-0.7	11.5	4.8	1.7	4.1
Central bank	3.6	11.6	-4.8	5.4	12.3	5.9	4.4
Commercial banks (net)	8.5	21.1	2.8	16.3	-0.5	-1.7	3.7
Net domestic assets	-16.5	1.2	13.0	-5.8	7.9	11.0	6.1
Of which: private sector credit	-0.9	1.5	1.6	3.6	4.7	5.1	2.5
Broad money (M2)	-4.7	10.1	4.6	4.3	6.0	5.3	4.9
	(In percent of GDP, unless otherwise indicated)						
Public Finances							
Central government							
Total revenue and grants	29.0	30.5	29.7	30.0	30.8	28.3	27.3
Total expenditure and net lending	35.8	33.4	32.5	31.2	32.2	32.8	27.8
Overall balance 2/	-6.8	-2.9	-2.7	-1.3	-1.4	-4.5	-0.5
Of which: expected fiscal cost of natural disasters	0.5	0.4	0.5	0.7	0.7	0.7	0.7
Excl. Citizenship-by-Investment Programs	-11.5	-8.7	-9.3	-8.0	-7.3	-8.4	-3.6
Primary balance 2/	-4.3	-0.6	-0.5	0.9	1.1	-1.8	1.7
Total public sector debt	89.2	84.5	76.2	73.9	71.2	70.8	69.9
External Sector							
Current account balance	-19.1	-18.5	-12.3	-10.3	-10.4	-9.9	-8.3
Trade balance	-29.5	-30.1	-33.3	-32.0	-34.2	-34.1	-32.7
Exports, f.o.b. (annual percentage change)	-28.5	31.5	40.5	21.9	-9.7	13.9	11.4
Imports, f.o.b. (annual percentage change)	-23.2	15.2	29.7	5.3	11.0	5.8	1.9
Services, incomes and transfers	10.4	11.6	20.9	21.8	23.9	24.2	24.5
Of which: travel	17.1	20.5	34.6	39.8	42.1	42.2	42.5
External public debt	47.9	47.6	42.6	42.7	42.1	43.7	44.8
External debt service (percent of goods and nonfactor services)	21.3	14.8	10.3	9.0	10.3	9.1	8.6
International reserves							
In millions of U.S. dollars	1,747	1,952	1,869	1,972	2,202	2,332	2,435
In months of prospective year imports of goods and services	5.7	4.8	4.0	4.0	4.2	4.4	4.4
In percent of broad money	28.1	28.5	26.1	26.4	27.8	28.0	27.9
REER (average annual percentage change)							
Trade-weighted 3/	-.07	-2.8	3.1	-1.1	-1.0	…	…

Sources: Country authorities; and IMF staff estimates and projections.
1/ Includes all eight ECCU members unless otherwise noted. ECCU consumer price aggregates are calculated as weighted averages of individual country data. Other ECCU aggregates are calculated by adding individual country data. The staff report projections are based on the information available as of March 31, 2025. It, therefore, does not reflect the impact of the escalation of trade tensions on and after April 2, 2025.
2/ Projections include expected fiscal costs of natural disasters.
3/ Excludes Anguilla and Montserrat.

INTERNATIONAL MONETARY FUND

EASTERN CARIBBEAN CURRENCY UNION

April 9, 2025

STAFF REPORT FOR THE 2025 DISCUSSION ON COMMON POLICIES OF MEMBER COUNTRIES

KEY ISSUES

Context. The currency union has been providing a strong anchor for macroeconomic stability in a shock-prone region, highlighted by the impact of Hurricane Beryl last year. Tourism-backed post-pandemic growth has been strong, and inflation has moderated in tune with global trends. Public debt has modestly declined but remains high. The financial system is stable, though continues to face challenges from balance sheet weaknesses, weak bank lending conditions, and non-banking sector vulnerabilities. Medium-term GDP growth is projected to moderate as most of the region nears full tourism capacity, with weak productivity growth, subdued investment, and rapid population ageing weighing on the outlook. Key downside risks stem from the unpredictable external environment, uncertain Citizenship-by-Investment (CBI) inflows, and natural disasters (NDs).

Policy advice. To preserve the robustness of the currency union and macroeconomic stability, and support long-term growth, common policies should continue building economic, fiscal and financial resilience and addressing regional supply bottlenecks to growth potential:

- **Structural policies.** Resilient and inclusive growth is key to reducing fiscal and external imbalances and raising living standards. Policy priorities include boosting the resilience of the capital stock; addressing structural frictions to resource allocation, employment and skills development; and harnessing emerging opportunities in green energy transition and technological innovation.

- **Fiscal policy.** The regional priority remains to rebuild buffers and reduce debt levels consistent with the regional debt anchor, while improving fiscal resilience to shocks. This calls for strong national medium-term fiscal frameworks, comprehensive resilience strategies to support management of ND risks, and strengthening fiscal management of uncertain CBI revenues. These efforts can be supported by more institutionalized regional oversight and continued strengthening of national fiscal institutions.

- **Financial sector.** To enhance resilience and support productive investment, common policies should focus on addressing banks' legacy balance sheet weaknesses, mitigating risks in the non-bank financial system, and improving regional credit conditions and small businesses' bankability.

Approved By
Ana Corbacho (WHD) and Tokhir Mirzoev (SPR)

The mission team comprised Christoph Duenwald (head), Chris Faircloth, Nan Geng, Janne Hukka, Chao He (all WHD) and Goesta Ljungman (MCM). During the two legs of the mission (January 8-16 and January 27-February 10, 2025), the team held in-person meetings with six ECCU member jurisdictions (Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines), the Eastern Caribbean Central Bank (ECCB), the Organization of Eastern Caribbean States (OECS), and the Caribbean Development Bank (CDB) as well as virtual meetings with the two overseas territories, Anguilla and Montserrat, and private sector counterparts.

Contributors: ECCU team. Additional analytical inputs were provided by Alexander Amundsen, Sergei Antoshin, Sophia Chen, Pierre Guérin, Diego Gutierrez, Sinem Kilic Celik, Junghwan Mok, Flavien Moreau, Sami Ben Naceur, Peter Nagle, Jonas Nauerz, Jongsoon Shin, Spencer Siegel, Camilo Tovar Mora, and Hou Wang (all WHD). Laila Azoor, Eliana Porras Herrera, and Spencer Siegel (all WHD) assisted in the preparation of the report.

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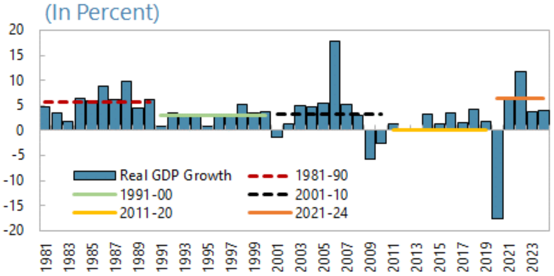
TABLES

ANNEXES

CONTEXT

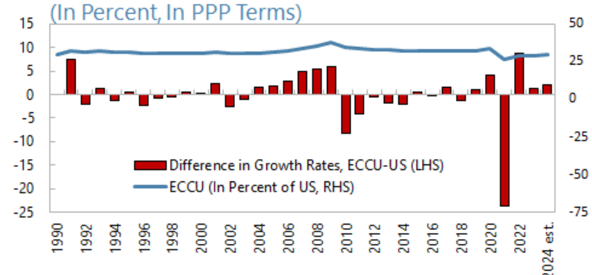
1. As a strong anchor for macroeconomic stability, the currency union has facilitated the quadrupling of the region's output since its inception, but income convergence has stalled. While the region has demonstrated remarkable economic resilience in the face of periodic external shocks, including NDs, average growth weakened substantially in the decade preceding the pandemic, limiting income convergence with advanced economies.

Real GDP Growth and Decade Averages
(In Percent)



Sources: ECCB; and IMF staff calculations.
Note: Horizontal lines are annual averages for real GDP growth for the period. Real GDP growth data for ECCU for 1981-89 is calculated as a simple average of available member country data.

Relative Per Capita Real GDP Growth
(In Percent, In PPP Terms)



Sources: WEO; and IMF staff calculations.

2. The ECCU economies also confront several long-standing vulnerabilities. These include high ND susceptibility and import dependence (particularly on energy). High public debt limits policy space and a few members rely heavily on uncertain CBI revenue. External sector imbalances underscore vulnerability to tourism and FDI shocks, and the ECCU financial system continues to grapple with persistent asset quality weaknesses. Rapid population ageing constitutes a further headwind to the region's longer-term outlook.

Key Vulnerabilities of ECCU Countries

	Energy Dependence (Fossil Fuel Imports)	Natural Disaster Total Damages 1980-2023	Public Debt	Current Account Deficit	CBI Revenue Share in Total Non-Grant	Banking Sector NPL Ratio	Old-age Dependency Ratios	
	(In Percent of GDP)				(In Percent)			
	2023	Annual Average	2023	2023	2023	2024Q4	2024	2084
Antigua and Barbuda (ATG)	6.5	2.4	76.3	13.5	6.7	5.3	16.7	62.9
Dominca (DMA)	8.7	10.4	99.9	34.2	59.5	11.8	18.7	46.0
Grenada (GRD)	7.0	3.5	75.2	18.4	29.3	2.9	17.9	65.5
St. Kitts and Nevis (KNA)	8.3	4.9	55.9	11.6	51.7	18.1	15.9	49.7
St. Lucia (LCA)	8.8	1.3	74.8	1.6	3.3	11.9	13.2	56.5
St. Vincent and the Grenadines (VCT)	4.7	1.0	89.2	16.8	...	7.0	17.8	47.4

Sources: Country authorities; EM-DAT, WEO; UN Population Projections; and IMF staff calculations.

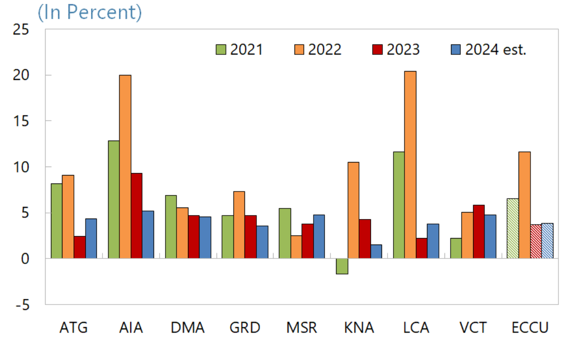
RECENT DEVELOPMENTS[1]

3. A strong tourism season and continued infrastructure investments supported robust growth in 2024, estimated at 3.9 percent. Total tourist arrivals have surpassed pre-pandemic

[1] This is a report on the annual consultation discussions with the regional institutions responsible for common policies in the ECCU pursuant to the Decision on the Modalities for Surveillance over ECCU Policies in the Context of Article IV Consultations with Member Countries (Decision No. 13655-(06/1), January 6, 2006, as amended). Throughout the report, the term "authorities" refers to the Eastern Caribbean Central Bank and the national authorities of the ECCU members responsible for policies of common interest. Annex V discusses recent developments and outlook specific to the United Kingdom Overseas Territories of Anguilla and Montserrat that are not IMF members.

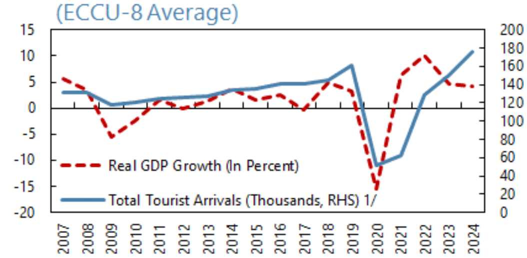
levels in most ECCU countries, supported in part by expanded capacity from new resort developments. Major ongoing infrastructure projects—including airports, seaports, and renewable energy facilities—have boosted construction activity and are expected to improve connectivity and resilience. Despite significant physical damages to islands in Grenada and St. Vincent and the Grenadines, the growth impact of the July 2024 Hurricane Beryl was substantially moderated by more limited effects on key economic centers and the authorities' prompt recovery efforts.

Real GDP Growth By Economy
(In Percent)



Sources: Country authorities; and IMF staff calculations.

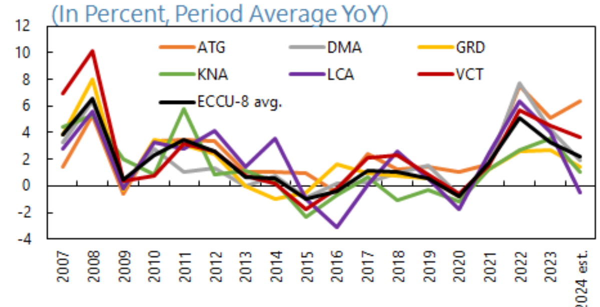
Real GDP Growth and Total Tourist Arrivals
(ECCU-8 Average)



Sources: ECCB; and IMF staff calculations.
1/ 2024 is annualized from monthly data from January 2024 to September

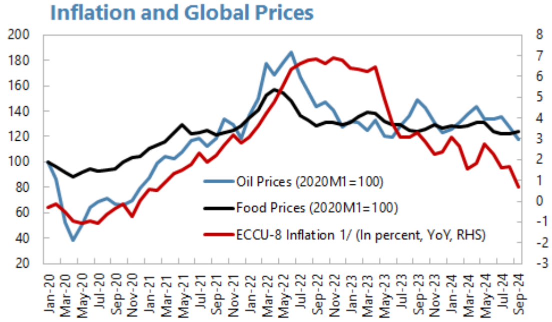
4. **Headline inflation has eased significantly from a post-pandemic peak of more than 9 percent to less than 2 percent as of June 2024.** ECCU inflation has generally tracked global food and oil prices, with some variations across members partly reflecting local fuel pricing mechanisms and the timing of the removal of temporary support measures. Easing of global food and oil prices since 2023 has raised the relative significance of idiosyncratic country-specific factors.

Inflation
(In Percent, Period Average YoY)



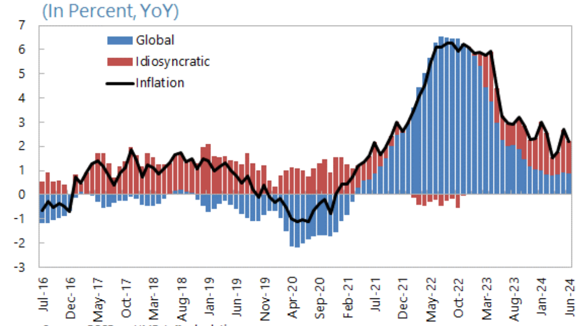
Sources: ECCB; and IMF staff calculations.

Inflation and Global Prices



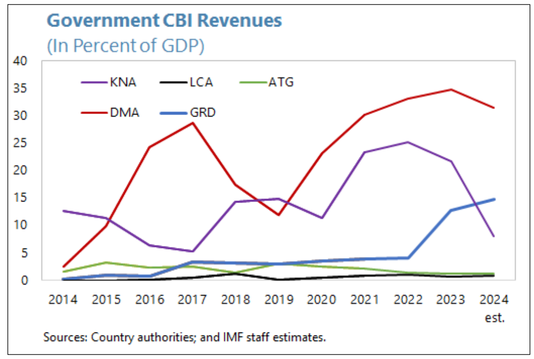
Sources: ECCB, *World Economic Outlook* database, and IMF staff calculations.
1/ GDP-weighted CPI inflation, 2024 GDP used is estimated values.

Inflation Decomposition
(In Percent, YoY)

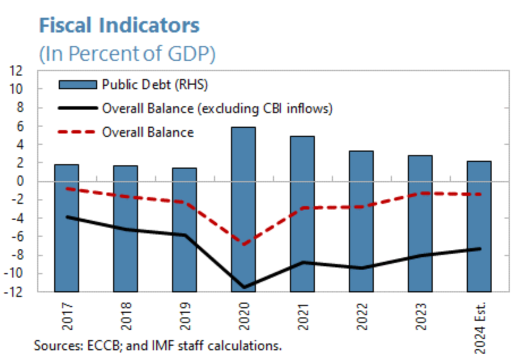


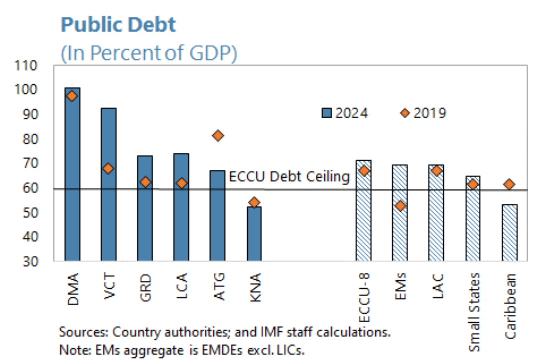
Sources: ECCB; and IMF staff calculations.
Note: ECCU estimates calculated from GDP-weighted member country results (excluding AIA due to data issues).

5. **CBI revenues have stayed high but showed signs of slowing amidst heightened international scrutiny and regulatory tightening.** The five ECCU countries offering a CBI program implemented common minimum pricing in mid-2024, took steps to strengthen investor screening, and are establishing a regional CBI regulator.[2] Recent CBI program revenues reflect in part the unwinding of previous application backlogs. Notwithstanding a temporary demand boost ahead of the recent price increases, the outlook remains uncertain. The recent CBI revenue decline in St. Kitts and Nevis underscores the programs' vulnerability to abrupt changes in investor demand.



6. **Public debt continued to decline modestly in 2024 but remains high.** The ECCU's overall 2024 fiscal deficit was broadly unchanged relative to 2023 at 1½ percent of GDP. The impact of lower CBI revenues in St. Kitts and Nevis and post-disaster spending following Hurricane Beryl was offset by improvements in other member states.[3] Supported by buoyant growth, public debt is estimated to have declined further to about 71¼ percent of GDP in 2024, but remains high compared to peers and the 60 percent of GDP regional debt ceiling committed to by 2035.



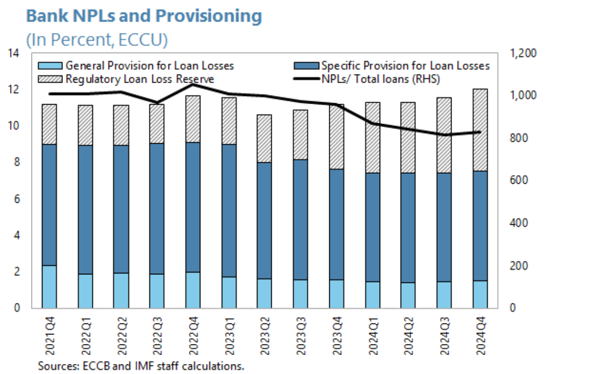


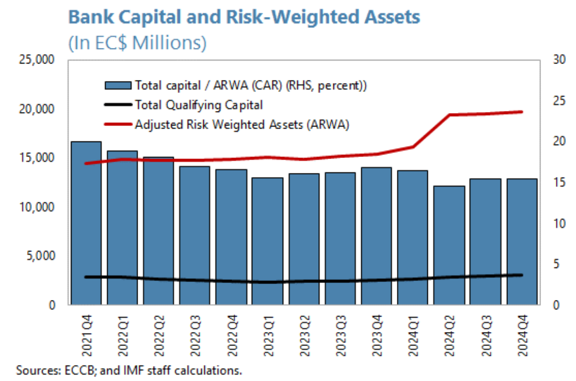
7. **The financial system has remained stable.** Bank nonperforming loans (NPLs) continued a gradual downward trend but remain high in several members. Provisioning against NPLs has slowly improved, although the ECCB has granted a few banks time-bound extensions to meet the

[2] Other recent and ongoing CBI reforms underpinned by a 2024 Memorandum of Agreement between the five CBI members include collective treatment of application denials, conduct of applicant interviews, external program audits, retrieval of revoked passports, and non-acceptance of new Russian and Belarusian applications.

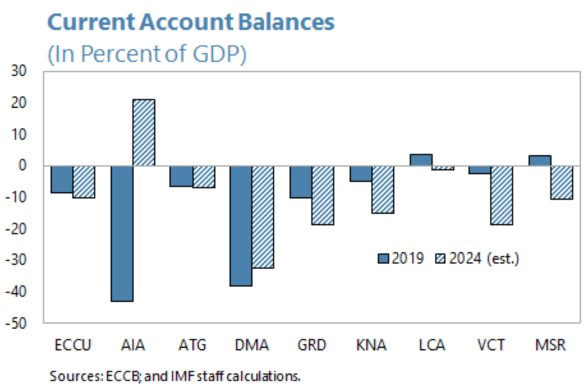
[3] The discretionary fiscal packages in response to Hurricane Beryl in 2024 are estimated at 4.6 and 5.7 percent of GDP (of which, 0.5 and 1.3 percent of GDP are income support to the vulnerable) for Grenada and VCT, respectively. The overall underlying deficit net of CBI revenues (used as a proxy for the aggregate fiscal stance) for the region narrowed from about 8 percent of GDP in 2023 to an estimated 7¼ percent of GDP in 2024, and excluding the budgetary impact of fiscal responses to Hurricane Beryl, would have improved further to about 6 percent of GDP in 2024. Total CBI revenues as percent of ECCU regional GDP are estimated to have declined by 1½ percentage points in 2024, compared to 2023.

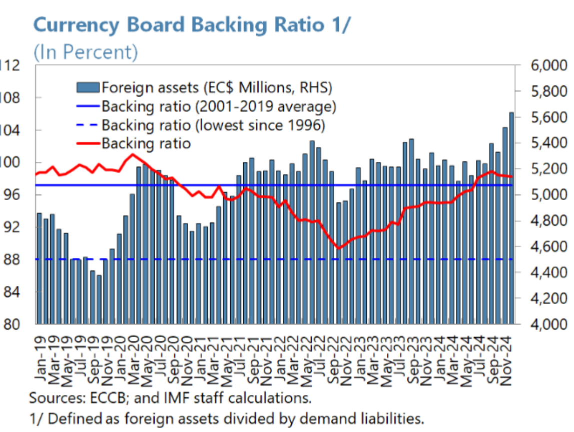
now-fully-phased-in regional standard. Increased risk-weighted assets following the implementation of more risk-sensitive Basel II/III capital requirements modestly eroded headline capital adequacy.[4] Notwithstanding some recent uptick in bank household, construction, and real estate lending and continued rapid lending growth by credit unions, much of the system's ample liquidity continues to be invested overseas.





8. The ECCB's reserve position has remained stable and the currency backing ratio strong, despite wide current account deficits.[5] The ECCU 2024 current account deficit is estimated to have stayed broadly unchanged at about 10½ of GDP, with the gradual narrowing trend from its 2020 peak disrupted by reduced CBI inflows and Hurricane Beryl. Based on staff's 2024 estimates, the ECCU's overall external position is assessed to be weaker than the level implied by fundamentals and desirable policies (Annex II). Nonetheless, the large deficit has remained fully financed by CBI and other FDI inflows and the ECCB's nominal reserves have modestly increased.



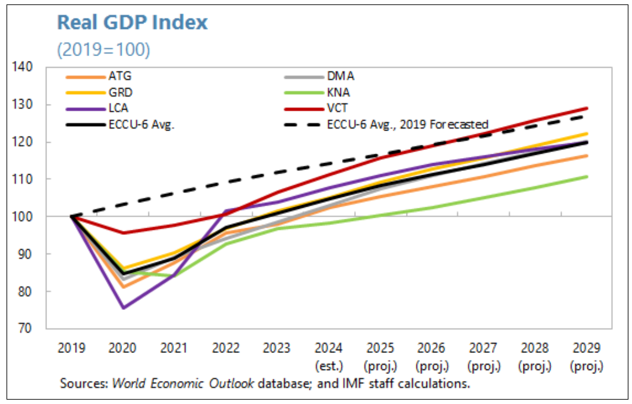


[4] The hybrid Basel II/III framework implemented by the ECCB introduces capital requirements for market and operational risk.

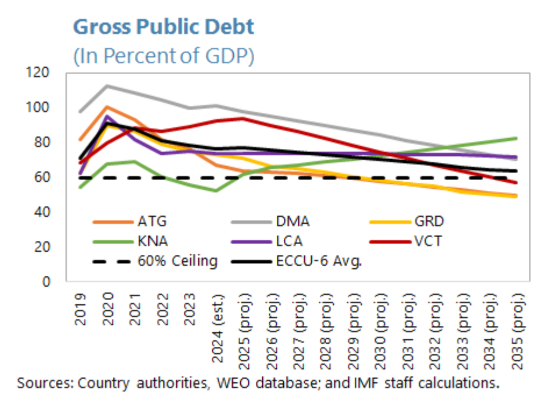
[5] Recent revisions to historical balance of payments statistics resulted in lower 2021-22 current account deficits.

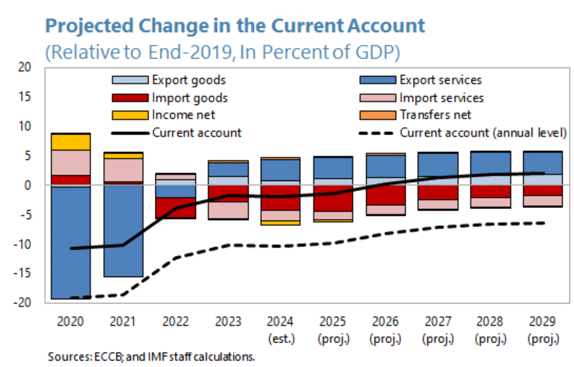
CHALLENGING OUTLOOK

9. The medium-term outlook is tempered by subdued potential growth. After the strong post-pandemic rebound in 2021-24, most members are approaching full export and production capacity. Over the medium-term, upon completion of the ongoing large-scale infrastructure projects, regional GDP growth is projected to revert to the average pre-pandemic growth rates of about 2½ percent. This modest potential is underpinned by subdued productivity growth, a shrinking labor force, and constrained fiscal space for public investment. It is also much lower than what would be needed to close the gap with the pre-pandemic trend and achieve the authorities' ambition of doubling ECCU output in ten years ("The Big Push").[6] ECCU inflation is projected to continue to moderate, in line with the expected baseline trend in main trading partners.



10. Fiscal and external balances are projected to improve in the medium term. The aggregate public debt-to-GDP ratio is projected to decline over the medium term towards the regional debt ceiling, provided most countries continue to implement their fiscal consolidation plans. Nevertheless, some countries are expected to remain above the debt ceiling by 2035.[7] The gradual narrowing of the aggregate current account deficit is projected to continue, reflecting completion of large import-intensive public capital projects, including post-Beryl reconstruction.





[6] See The Big Push, a call by the ECCB for member countries to develop and implement strategies and policies to double the ECCU's GDP in ten years.

[7] The increasing trend in KNA's projected gross public debt path reflects mainly a further decline in projected CBI revenues. Net public debt (gross debt minus deposits) stands at an estimated 42 percent of GDP in 2024.

11. The outlook is clouded by significant downside risks amidst a highly uncertain external economic environment (Annex III). Given the ECCU's high import dependency, further increased global trade tensions and risks of geoeconomic fragmentation, regional conflicts and commodity price volatility could give rise to renewed inflationary pressures. They can also hurt growth through disruptions to tourism and so-far stable FDI inflows. Tighter global financial conditions or systemic instability could trigger market losses on banks' overseas investments and constrain funding for FDI. NDs remain a major and recurrent threat to the region. Fiscal under-performance, including due to highly uncertain future CBI revenues, could derail members' fiscal plans with potential implications for debt sustainability and policy space to implement critical infrastructure investments. These shocks could be amplified by weaknesses in the local financial system, including rising risks in the non-bank financial sector and legacy asset quality risks in the banking system.

Authorities' Views

12. The authorities broadly agreed with staff's outlook of moderating growth. They concurred that weak productivity growth and local investment, and headwinds from elevated public debt, ageing population, and labor market challenges weigh on the region's medium-term outlook. They also broadly shared the assessment of downside risks from exposure to NDs, uncertain CBI revenues, and external uncertainties owing to high dependence on food and fuel imports, tourism and FDI inflows. The authorities nonetheless also stressed the region's potential for higher growth outcomes if supported by decisive reforms and welcomed the ECCB's "big push" initiative as helping to sensitize the membership to key growth impediments and supporting a regional policy reform roadmap.

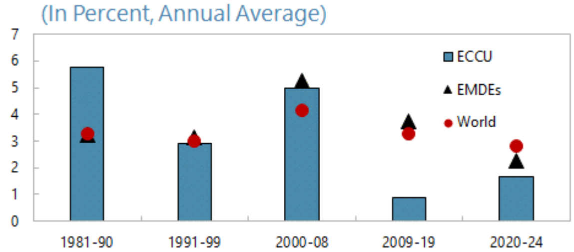
POLICIES TO FOSTER RESILIENT AND INCLUSIVE GROWTH

To support more robust and inclusive long-term growth and the currency union's fiscal and external sustainability, policies should aim at building economic, fiscal and financial resilience and addressing the region's supply bottlenecks to growth potential. Priorities include (i) addressing structural frictions to resource allocation, employment, and skills development; strengthening the resilience of the capital stock; and harnessing opportunities in emerging sectors to boost productivity; (ii) building robust medium-term fiscal frameworks (MTFFs) and resilience strategies to reinforce the regional debt target and ensure space for growth-enhancing investment; and (iii) addressing banks' legacy balance sheet weaknesses, mitigating risks from the non-bank financial sector, and improving credit conditions and small enterprises' bankability to support private investment.

A. Addressing Supply-Side Bottlenecks to Enhance Growth

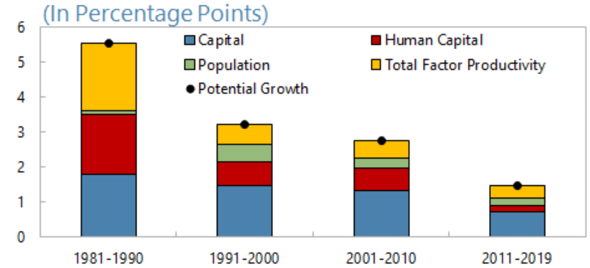
13. The ECCU region has exhibited a trend slowdown in growth due to structural factors (Annex VI). Average growth has lagged developing and emerging markets for decades, hindering convergence with advanced economies (U.S.) income levels. An updated growth accounting analysis suggests a decline in potential growth from 5.5 percent in the 1980s to 1.5 percent pre-pandemic.[8] This has been primarily driven by lower growth in total factor productivity (TFP) and human capital (each comprising nearly two-fifths of the total decline), followed by physical capital. Underlying these trends are a range of supply-side bottlenecks that give rise to resource misallocations. These include persistent labor market frictions, limited investment due to financial intermediation weaknesses, and barriers to innovation, such as rigidities in the business environment. Recurring NDs impair productive infrastructure and hinder human capital formation, placing additional limits on TFP growth.

Real GDP Growth
(In Percent, Annual Average)



Sources: ECCB; WEO; and IMF staff calculations.
Note: Real GDP data for ECCU for 1981-89 is calculated as a simple average of available member country data.

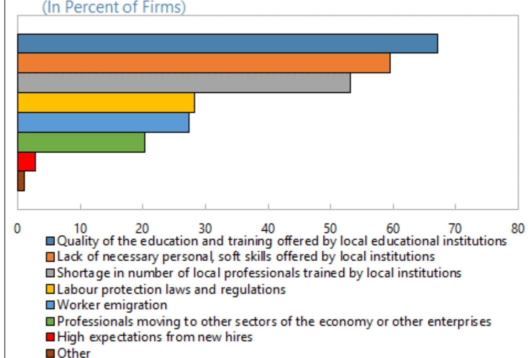
Factor Contribution to Potential Growth, ECCU
(In Percentage Points)



Sources: Barro and Lee (2015); EM-DAT database; IADB database, Penn World Table (10.1 version); World Bank; and IMF staff calculations.

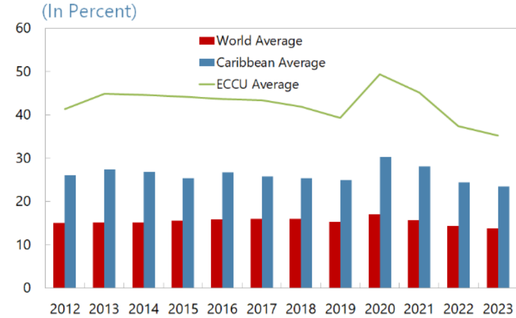
14. A renewed effort to improve labor market outcomes, foster opportunities for youth and women, and attune human capital to economic needs is warranted. In line with [the 2024 regional consultation](), an ECCU-wide firm level survey show that persistent structural frictions impede labor market performance at the expense of growth. The survey identifies a shortage of skilled labor—quality, skills, and number of professions trained at local institutions—as a top barrier preventing firms from operating at the optimal scale. Labor protection laws and regulations and emigration were also cited in the survey as impediments, but to a lesser degree. Expanding vocational training and modernizing education systems to align with economic needs, complemented by active labor market policies, could mitigate these challenges. Enhancing access to (and leave for) child and elderly care could help ease gender gaps. Staff analysis suggests that eliminating

Causes of Labor Skills Shortages in the ECCU
(In Percent of Firms)



Sources: Innovation, Firm Performance and Gender (IFPG) survey; and IMF staff calculations.
Note: Values reflect the percent of firms who answered "Very important" or "Critical" to each factor.

Youth Unemployment
(In Percent)

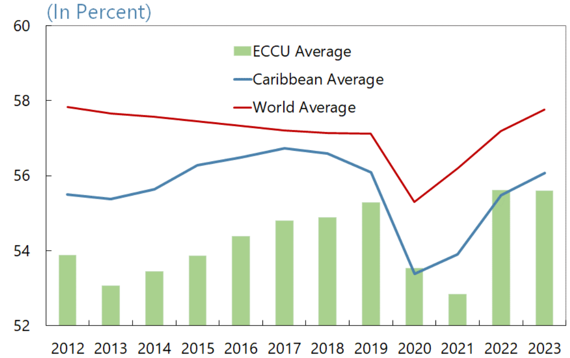


Source: World Bank Global Development Indicators database; and IMF staff calculations.

[8] While the 2020-24 period shows a modest strengthening in average growth to 1¾ percent, underlying trends are clouded by the pandemic-induced contraction and subsequent strong recovery among ECCU countries during this timeframe. In any case, average growth remains well below prevailing levels in earlier decades.

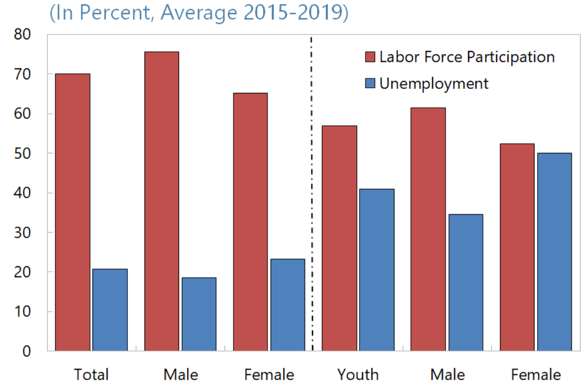
the sizable male-female participation gap (11¼ percentage points on average) could translate into a roughly 10 percent gain in ECCU GDP.[9]

Employment to Population Ratio
(In Percent)



Sources: World Bank Global Development Indicators database; and IMF staff calculations.

Labour Force Participation and Unemployment
(In Percent, Average 2015-2019)



Sources: Labor Force Survey; and IMF staff calculations.

15. Common policies can help overcome frictions to scaling up productive and efficient capital investment. This involves:

- ***Harnessing opportunities of energy transition (Selected Issues "Powering the Future: Energy Transition Strategies for the ECCU").*** Diversifying into lower cost renewable energy would reduce the region's heavy reliance on costly and volatile oil imports, thus enhancing external sustainability while strengthening competitiveness, risk resilience, and long-term growth. The ECCU nonetheless faces significant challenges in engineering the transition, including: (i) high upfront costs and limited fiscal space; (ii) regulatory hurdles for private investment; and (iii) small-market constraints that hinder economies of scale in renewable investments. There is potential for regional coordination to help overcome these challenges. This includes the Resilient Renewable Energy Infrastructure Investment Facility (RREIIF)—an initiative championed by the ECCB and supported by the World Bank[10]—alongside regional mechanisms to promote pooled procurement and modernize and standardize regulatory frameworks. Some supplementary energy efficiency gains may also be achieved through cost-effective policies.[11]

[9] The estimate is derived from the IMF's Output Gains Toolkit.

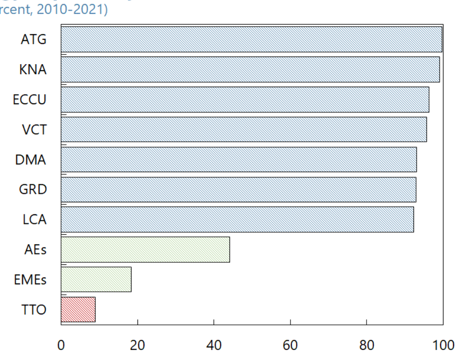
[10] The RREIIF aims to overcome policy, institutional, and technical barriers to improve the access to and availability of finance for the energy sector and accelerate renewable energy investments at a pace and scale that is more responsive to the financing needs and risks (e.g., NDs) of the region. The RREIIF blends financing from concessional sources, development partners, and capital markets to mitigate finance risks and reduce the effective cost of World Bank financing for IDA and IBRD countries.

[11] Such measures, for example painting buildings with reflective colors and promoting more energy-efficient air conditioners and automobiles, could potentially reduce electricity demand by 18 percent. See Masson, M., D. Ehrhardt, and V. Lizzio. 2020. "Sustainable Energy Paths for the Caribbean." Inter-American Development Bank.

Energy Supply and Consumption

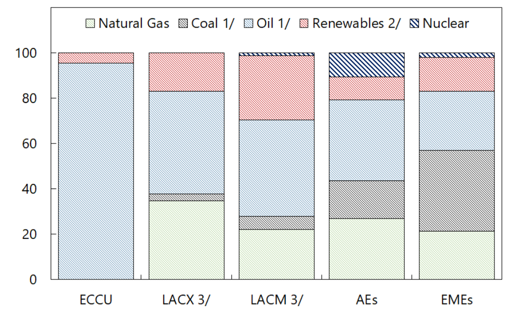
The ECCU countries are among the most energy dependent countries in the world…

Energy Dependency Ratio
(In Percent, 2010-2021)



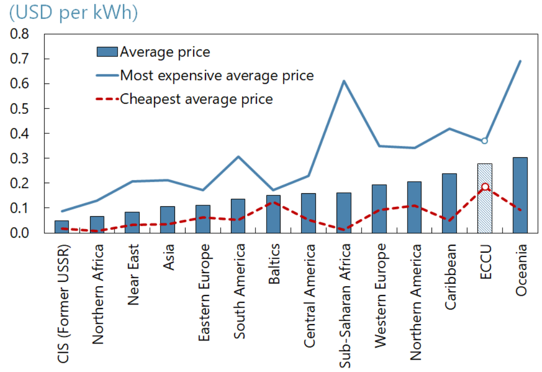
…with oil accounting for most of the energy supply, in sharp contrast to most other countries.

Total Energy Supply
(In Percent of Total, Average 2010-2021)



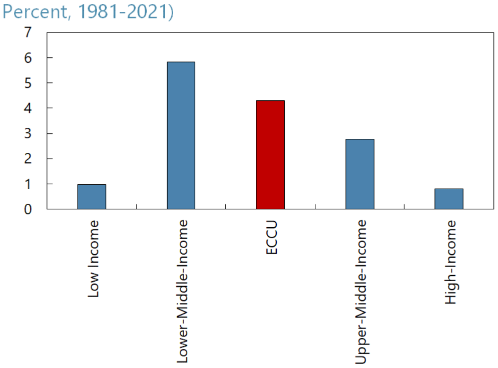
Electricity prices in the ECCU are high compared to other regions…

Average Electricity Price
(USD per kWh)



…as is the increase in ECCU's energy consumption over the past decades, highlighting the need for enhanced energy efficiency.

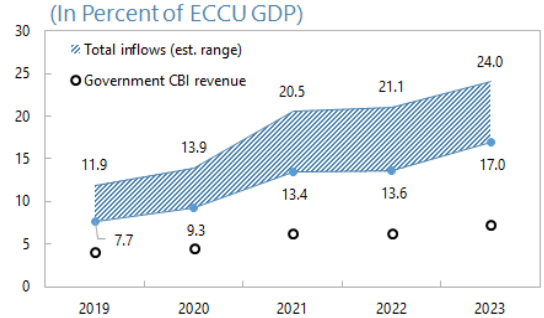
Average Annual Change in Primary Energy Consumption
(In Percent, 1981-2021)



Sources: Country authorities; UN Energy Statistics; Cable.co.uk; Ritchie and others (2020); and IMF staff calculations.
1/ Comprised of primary productions and related products.
2/ Reported as biofuels and waste, electricity, and heat under UN Energy Statistics.
3/ LACX = Latin American and Caribbean net energy exporters, LACM = Latin American and Caribbean net energy importers. LACX and LACM are grouped based on their average energy exports and imports in the period 2010-2022, based on UN Comtrade data SITC rev 3.

- ***Safeguarding and optimizing the CBI funding model for development (Selected Issues "ECCU CBI Programs: Regional Significance and Risks").*** Over the past decade, CBI inflows have become a prominent financing source for strategic development, including expansion of tourism capacity and public infrastructure. While transparency over direct CBI investment under real estate and other project options is limited, staff estimates the total scale of CBI inflows to

Estimated Range of Total CBI Inflows
(In Percent of ECCU GDP)



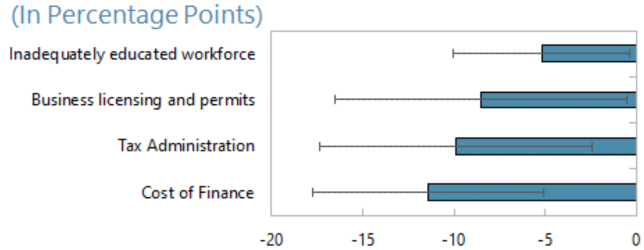
Sources: Country authorities; and IMF staff calculations.

far exceed their significant contribution to government revenue.[12] This underscores the need to safeguard the sustainability of CBI programs through ongoing, regionally coordinated, strengthening of their financial integrity and addressing third-party security concerns. The planned regional regulator provides an important opportunity to address gaps in institutional reporting and accountability frameworks. This includes public tracking of all CBI inflows and their uses, and ex-post assessments of investment outcomes. Such steps would support productive allocation of these vital investment inflows and foster regional best practices in the design of the CBI investment options. This would help ensure the investments' economic benefits align with the program risks and, in case of direct CBI investments, the potential opportunity costs of foregone government revenue.

- ***Strengthening disaster preparedness of capital stock through regionally coordinated efforts.*** Priorities include updating country-specific ND risk assessments alongside a broader effort to upgrade regulations and strengthen compliance in land use planning and building codes.[13] Given that the status of disaster preparedness strategies varies among ECCU countries, the Monetary Council's peer review process could serve as a mechanism to help coordinate disaster management planning, as severe NDs can endanger fiscal sustainability with implications for the quasi-currency board.

16. Addressing bottlenecks to innovation and allocative efficiency can yield substantial productivity gains. Firm-level analysis across the region reveals that financing, regulatory, and input constraints lead to significant TFP losses, mainly reflecting high financing costs, cumbersome tax administration, and inefficient business licensing processes. Alleviating these bottlenecks and improving resource allocation could result in substantial productivity gains—with TFP improvements ranging from 34 to 65 percent for member

Firm-Level TFP Loss Associated with Structural Obstacles
(In Percentage Points)



Sources: Innovation, Firm Performance and Gender (IFPG) survey; and IMF staff calculations.
Note: Confidence interval of 90 percent.

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[12] In exchange for a citizenship, the CBI programs offer options for either a non-refundable financial contribution to a government owned fund or direct investment in pre-approved tourism (real estate) development or other business/public benefit projects subject to a minimum holding period. While the government contributions are generally accounted for in publicly available fiscal records, only one ECCU country publishes complete data on direct CBI volumes under the other investment options, resulting in high uncertainty about the estimated total scale of CBI inflows. These are based on publicly available CBI application volumes, investment option pricing structures and government CBI revenue data. Given data gaps, the estimated range extrapolates on known shares of government contributions and other investment options in total application volumes, which can give rise to estimation errors for specific years and CBI programs for which no data are available. Lack of complete records on effective investment prices over the period, application processing and payment delays, and potential non-completed applications contribute to the high estimation uncertainty.

[13] The post-Beryl 2024 Global Rapid Post-Disaster Damage Estimation Reports (GRADE) for Grenada and St. Vincent and the Grenadines highlight potential benefits of stronger building standards. For example, even minor structural improvements of replacing sheet metal roofing could dramatically increase resilience against storm events.

countries. This would potentially close the standard of living gaps with the U.S. by 9 to 27 percentage points. Against this backdrop, policy priorities include measures to improve financial intermediation (see Section C), promote digitalization—particularly in education and government services—and streamline regulatory processes.

Authorities' Views

17. The authorities concurred with staff's finding of a trend decline in potential growth with broad agreement on the underlying root causes. Persistent skills mismatches, underinvestment in resilient capital stock, and administrative inefficiencies were highlighted as major impediments. While tourism was expected to remain a central driver to the region's economy, accelerating the energy transition to local renewable sources and reinvigorating the agricultural sector were also viewed as strategies to enhance competitiveness and economic resilience. Greater diversification within the tourism sector into high-value niche markets was also seen as a means to generate greater added value and year-round revenue. Attracting large-scale FDI to support these priorities was seen to require strengthened institutions, credible fiscal policies, resilient infrastructure, and regional integration.

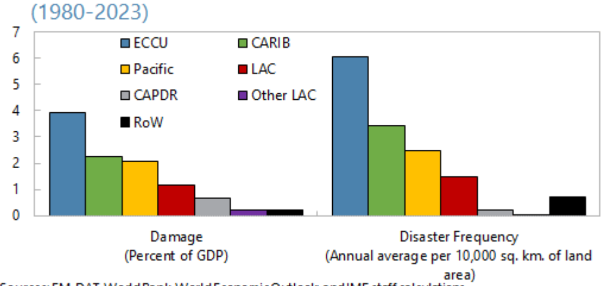
18. There was support for a multipronged pro-growth reform agenda where regional mechanisms could play a useful role to incentivize and coordinate implementation. Policymakers stressed the need to revamp education and vocational training to address persistent workforce skills gaps and mismatches. Priorities include modernizing curriculums to fit current economic needs and better aligning the regional vocational certification framework with core skills demanded in the labor market. The authorities emphasized the importance of improving the business environment through digitalization, streamlining bureaucratic processes, and modernizing legal frameworks. The energy transition to local renewable sources was identified as a major opportunity for economic diversification where the ECCB's RREIIF can help overcome regulatory and financing barriers. However, it was also cautioned that some regional harmonization efforts—such as standardized regulatory frameworks and updated building codes—face practical challenges due to differences in utility ownership structures and limited enforcement mechanisms.

B. Building Robust Fiscal Frameworks and Resilience Strategies

19. The region's high vulnerability to recurring NDs, coupled with periodic procyclical fiscal policies, are key drivers of the ECCU's ongoing fiscal challenges (*Selected Issues "Fiscal Sustainability and Natural Disaster Risks in the ECCU"*). As one of the world's most vulnerable regions to NDs relative to its small size, the ECCU typically experiences a significant deterioration in its fiscal position following major NDs despite offsetting support from the international community. These large adverse shocks, coupled with frequent fiscal slippages,[14] have contributed to high public debt, further constraining the fiscal space for public and social investment.

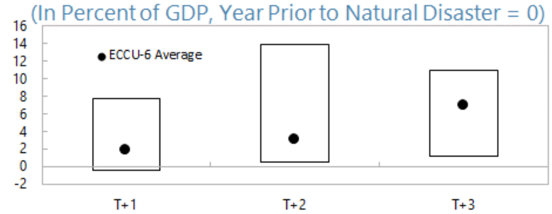
[14] See Selected Issues for 2018 ECCU Regional Consultation Report, IMF Country Report No. 19/63.

Average Annual Economic Impacts of Natural Disasters
(1980-2023)



Sources: EM-DAT, World Bank, World Economic Outlook; and IMF staff calculations.
Note: Groups of WHD, Pacific and rest of the world are exclusive. 2021 reported figures are used for country land area.

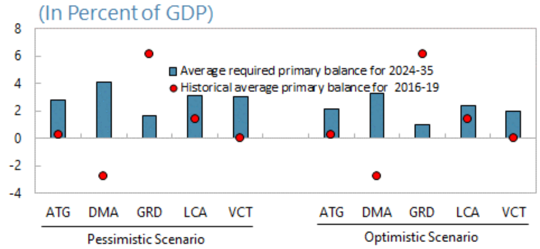
Change in Gross Public Debt
(In Percent of GDP, Year Prior to Natural Disaster = 0)



Source: EM-DAT; WEO; and IMF staff calculations.
Note: Natural disasters from 1990 to 2023 included based on if more than 3,000 people were affected. Live WEO vintage used. KNA not included in ECCU-6 average, due to anomalies in public debt dynamics, such as the sovereign debt restucturing in 2011-2012. Boxes show range of values for ECCU-6, except KNA.

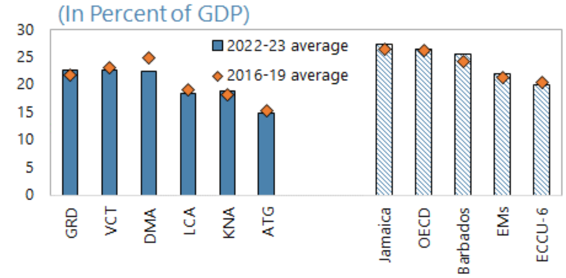
20. Robust national fiscal frameworks and resilience strategies remain a policy priority to support effective debt reduction and shock-resilience. Fiscal resilience safeguards the region's macro stability and supports confidence in the currency union, where effective policy coordination can mitigate cross-member spillovers. With 2035 only a decade away, sizable efforts are needed in some members to credibly achieve the regional debt target. Fiscal space is also needed to guard against risks and finance social spending and growth- and resilience-enhancing investment. These can be supported by:

Average Primary Balance Needed to Reduce Debt to 60 Percent of GDP by 2035
(In Percent of GDP)



Sources: Country authorities; and IMF staff calculations.
Note: Average interest rates on public debt are assumed to stay at the same level as the implied interest rates during 2021-22 under the optimistic scenario and 100 basis points higher under the pessimistic scenario.

Tax Revenue
(In Percent of GDP)



Sources: Country authorities; WEO; and IMF staff calculations.
Note: Aggregates are simple averages. OECD (members as of end-2019) excludes Chile, Colombia, Costa Rica, and Mexico. EMs excludes countries in crisis and high oil-exporting countries.

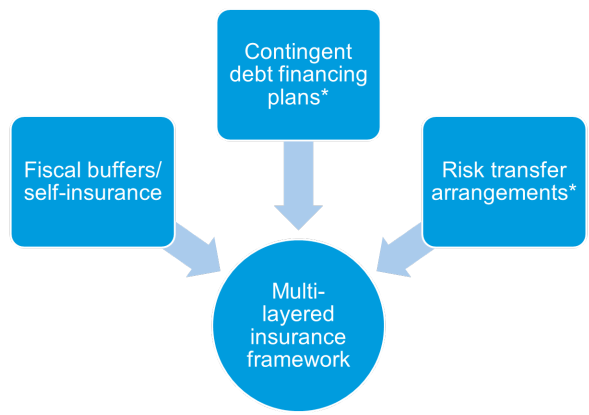
- ***Region-wide adoption of strong national MTFFs with well-designed fiscal rules and specific fiscal policy and reform plans.***[15] The frameworks should combine debt and operational targets and have strong enforceability frameworks backed by adequate capacity and institutions. The fiscal targets need to go hand-in-hand with concrete and credible fiscal policy plans. While many ECCU countries have continued to upgrade their MTFFs, most still lack effective operational frameworks and underpinning fiscal policy plans that link fiscal operations with long-term objectives. It will also be important to actively assess and manage fiscal risks and

[15] See 2022 ECCU Regional Consultation Report. Experience from peers (e.g., Grenada and Jamaica) shows that successful rules typically strike a balance between simplicity, flexibility, and enforceability and tailored to countries' characteristics. Staff analysis suggest that for ECCU-like small economies with high vulnerability to NDs and high debt, fiscal targets should be set more conservatively to internalize ND impact, and primary balance rules could be preferable to expenditure rules. It is also important to ensure the use of the flexibility of escape clauses is temporary and done transparently, including by explaining the size of the deviation and process to return to the rule, to preserve the credibility of the fiscal framework.

develop a detailed contingency plan against adverse shocks with funding and adjustment options. With tax revenue-to-GDP ratios well below peers, tax revenue can be further mobilized by broadening the tax base through removing sizable tax exemptions and strengthening tax administration. In particular, the implementation of minimum global taxation—as implemented recently in regional neighbors—provides an opportunity for regionally coordinated streamlining of generous tax incentives.[16] Spending quality and composition should also be improved, including by containing unproductive current expenditure, enhancing social assistance and capital spending efficiency, and digitalizing government services.

- ***A comprehensive ex-ante resilience strategy to enable resilient investment and adequate insurance against NDs.*** Intensifying NDs call for investing in structural (infrastructure) and financial (insurance) resilience before disasters hit, which would yield significant benefits and strengthen debt sustainability.[17] Integrating resilience investment budget tagging and a pipeline of projects into MTFFs will help anchor and calibrate sustainable multi-year ND resilient investment plans as well as unlock global grant and concessional financing. A disaster risk financing strategy (DRFS) with a multi-layered insurance framework would ensure liquidity for relief and reconstruction and safeguard public finances.

Disaster Risk Financing Strategy



* Contingent debt financing options can include catastrophe draw-down options (CAT DDO) and bonds (CAT bonds) and contingent loans and repayment deferral for loans from International Financial Institutions (IFIs).. Risk transfer arrangements can include the Caribbean Catastrophe Risk Insurance Facility (CCRIF).

- ***Strengthening management and budget use of CBI revenues.*** Notwithstanding the ongoing regional efforts to strengthen the CBI programs, the residual risks in the context of heightened international scrutiny underscore the need to avoid budget overreliance on these revenues. Frameworks with clear provisions for pacing the budget use of CBI revenues would help managing their potential volatility and support the predictability of medium-term budget and investment envelopes.[18] The frameworks can also support fiscal sustainability and resilience objectives by eschewing CBI revenue use for recurrent spending and allocating a portion of the

[16] 2019 ECCU Regional Consultation Report finds significant scope for tangibly streamlining tax expenditures while using higher revenues to attract investment through better infrastructure. A Qualified Domestic Minimum Top-up Tax (QDMTT) would help ECCU countries collect the top-up tax from in-scope multinational enterprises operating in these countries in accordance with the Global Anti-Base Erosion Model rules (e.g., Barbados has a QDMTT in force since January 2024, and The Bahamas announced plans for the enactment and implementation of the QDMTT).

[17] See Chapter 1 of IMF Country Report No. 19/63.

[18] Where MTFFs are underpinned by explicit primary balance rules, the uncertain CBI revenues may also introduce substantial procyclicality in members' fiscal stance, underscoring the need to adapt the design of national fiscal frameworks to the potentially volatile and uncertain nature of these flows.

CBI receipts to contingency funds against shocks.[19] Management of CBI savings should be subject to well-defined investment guidelines, oversight, and regular reporting.

21. Stronger regional coordination and oversight would reinforce fiscal discipline and the credibility of the regional debt ceiling. A strong governance framework to provide independent macroeconomic and budgetary projections and transparent assessments of national fiscal plans, the implementation of fiscal rules, and fiscal sustainability would be beneficial. These could be assigned to national and/or regional independent fiscal oversight entities, which according to international experience are found to have played an increasingly important role in strengthening fiscal frameworks (e.g., Chile).[20] A helpful first step could be a more formal operationalization of regular ECCB Monetary Council peer reviews of member states' fiscal strategies and progress toward the regional debt target.

Authorities' Views

22. The authorities reaffirmed their commitment to meeting the regional debt target and recognized the benefits of strengthening fiscal institutions and policy frameworks. They nonetheless also underscored the challenge of reaching the debt target while meeting other public policy goals and facing the risk of periodic natural disasters. They also highlighted the high cost of an ex-ante resilience strategy and called for more concessional financial support from the international community given their vulnerability to disasters and external shocks. While carefully weighing merits, some members indicated plans to advance reforms toward strengthening management and budget use of CBI revenues. The authorities broadly concurred with staff's call for greater regional coordination and oversight of fiscal policy plans, observing that some mechanisms are already in place. However, establishing a regional fiscal oversight body was seen as difficult as it would require national legislative approvals.

C. Strengthening Financial System Resilience and Private Investment

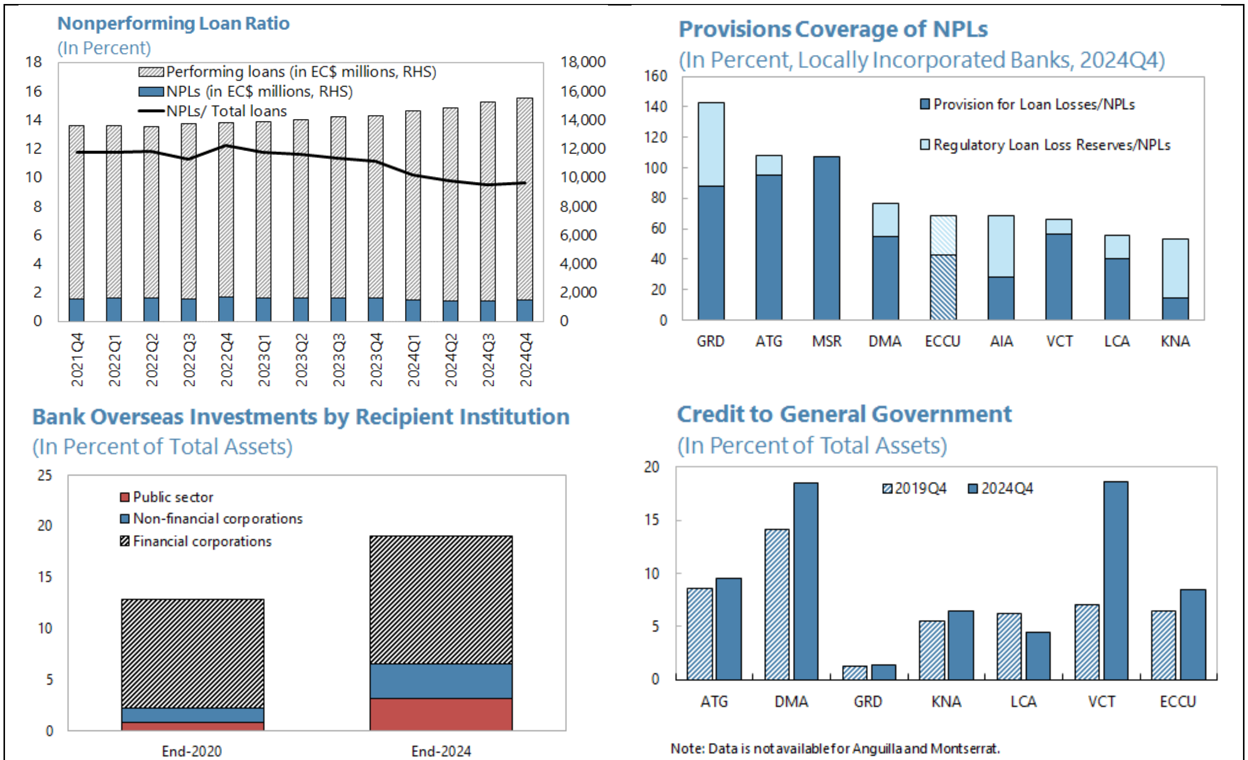
23. ECCU financial system risks remain broadly unchanged from previous consultations. The largely bank-dominated system has demonstrated remarkable stress resilience through the pandemic and natural disasters (including Hurricane Beryl). System liquidity remains high, supported by local deposit growth. Interlinkages to the global financial system are limited, although growing overseas investments give rise to potential security market risks. Bank profitability has improved. Nonetheless, long-standing balance sheet weaknesses and thin capital buffers in some banks, as well as rising risks in the non-bank financial system, remain areas of potential vulnerability.

24. Decisive progress in addressing banks' legacy balance sheet weaknesses remains important. This includes close monitoring of remaining banks' time-bound remedial actions to

[19] See February 2024 IMF FAD TA report on St. Kitts and Nevis.

[20] See "Fiscal Rules and Fiscal Councils: Recent Trends and Performance during the COVID-19 Pandemic," IMF Working Paper No. 2022/011 and "Chile: Fiscal Transparency Evaluation".

ensure timely full compliance with the ECCB's provisioning standard.[21] Furthermore, transitioning from reserve-based regulatory loan loss allowances to loss-bearing provisions would ensure appropriate recording and treatment of banks' capital positions.[22] Disposal of impaired assets can be supported by streamlining costly foreclosure and collateral sale processes and strengthening capacity of the Eastern Caribbean Asset Management Company.[23] Risks from rising overseas investments (mostly fixed income securities) and some banks' elevated local sovereign exposure should remain under close monitoring.



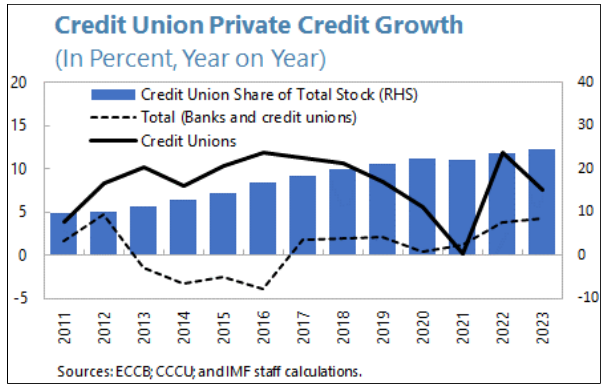
Sources: ECCB; and IMF staff calculations.

25. Containment of rising non-bank financial system vulnerabilities calls for stepped-up regional coordination to mitigate system-wide risks.

[21] While most banks have reached the standard's minimum provisioning requirement of 60 percent of NPLs, few remaining banks have been granted time-bound extensions. Compliance and need for remedial actions with the required full provisioning for impaired loans classified as loss is guided by on-site supervisory processes.

[22] Where the ECCB regulatory provisioning requirements exceed those under the accounting standards, some banks have maintained the additional allowance in a reserve recorded as part of their regulatory capital.

[23] To overcome persistent funding challenges, the ECAMC is exploring alternative funding models to support further NPL purchases. The ECAMC completed its first collateral sales in 2024.



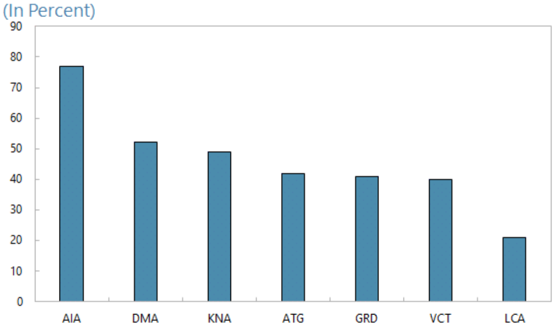
- ***Mitigating risks from rapid credit union expansion.*** The near-term policy priority is a coordinated effort to strengthen asset quality monitoring (including restructured loans and forbearance measures) and provisioning standards, and ensure sufficient local supervisory resourcing and institutional capacity for any needed interventions. The common minimum non-bank financial institution (NBFI) regulatory standards under the Eastern Caribbean Financial Stability Board (ECFSB, targeted to be operationalized by late 2026) offer an opportunity to establish a more level regulatory playing field between credit unions and banks.[24] The authorities are also urged to centralize the fragmented NBFI supervisory space to support more efficient and effective region-wide financial stability monitoring.

- ***Strengthening readiness to manage reinsurance risks in the property insurance market (Selected Issues "Property Insurance Challenges in the ECCU").*** The ECCU's high dependence on external reinsurance makes it vulnerable to the evolving reassessment of global ND liability risks, where rising costs compound chronic insurance affordability challenges. The risk of more sustained tightening of the reinsurance market could exacerbate existing protection gaps from under- and non-insurance by driving up costs and reducing capacity, which can raise broader financial stability concerns.[25] Strengthening monitoring of reinsurance coverage, including through more targeted data collection, would help build policy readiness for managing these risks. This would also be facilitated by a more centralized supervisory structure given the market prevalence of regional insurance companies. Encouraging private resilience investment can also help contain local market pressures given increasing risk-sensitivity of insurance pricing.

[24] This includes closer alignment with impaired loan standards applicable to banks with respect to required provisions, treatment of restructured facilities and treatment of collateral (see also Annex VII in the 2024 Staff Report for ECCU Regional Consultations). Beyond prudential standards, the ECFSB will have purview over market conduct, AML/CFT, and consumer protection compliance. It will regulate insurance, pension, deposit-taking NBFIs, money service businesses, and offshore banks, trusts and mutual funds.

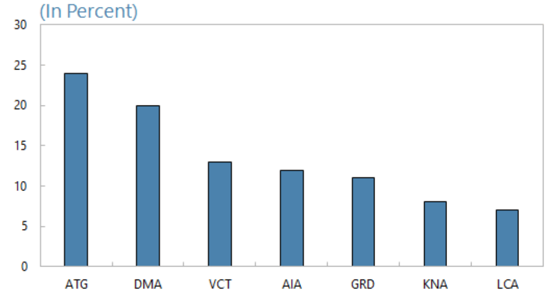
[25] These challenges can permeate through the financial system with potential implications for borrower repayment capacity, collateral valuations, and credit risk assessments.

Cumulative Increase in Average Property Premiums, 2019-2023
(In Percent)



Source: National supervisory authorities; and IMF staff calculations.

Property Reinsurance Retention Ratio[1], 2023
(In Percent)

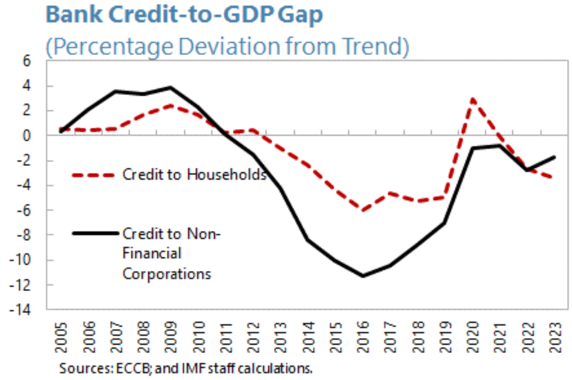


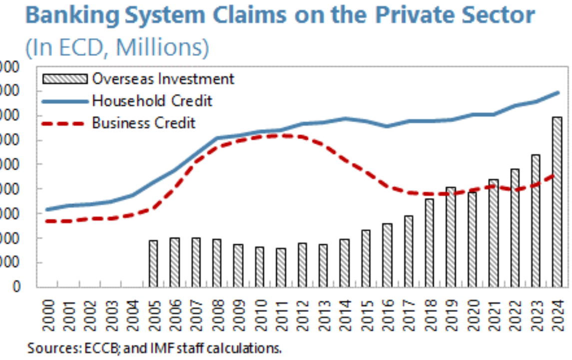
Sources: National supervisory authorities; and IMF staff calculations.
[1] The reinsurance retention rate, calculated as Net Written Premium/Gross Written Premium is the share of premiums an insurer does not cede to a reinsurer.

26. A more systematic regional approach to strengthen financial intermediation would support efforts to boost private investment (Annex VII). Bank credit-to-GDP gaps have been negative for over a decade, with high system liquidity being invested overseas and local credit risk increasingly assumed by the credit union sector with weaker loss-absorption capacity. Business lending growth has been particularly anemic with average real annual growth of ½ a percent since 2000, limiting growth-supporting investment. Several factors underpin this trend, including bank balance sheet weaknesses, institutional credit market frictions (raising cost of loan impairments, cost of credit and collateral requirements) and structural factors impeding potential borrowers' bankability. The region has taken some important steps to address these constraints, including the ongoing rollout of the Credit Bureau and more demand-tailored products under the Eastern Caribbean Partial Credit Guarantee Corporation. There are also national credit-promotion initiatives, including through national development banks whose risk-bearing capacity nonetheless calls for close monitoring. A closer coordination of these regional and national initiatives, alongside efforts to strengthen financial system resilience, more active business outreach programs and broader structural reforms to support private sector development, would help foster a more conducive lending environment and support creation of lending opportunities.[26]

[26] Private investment can also be supported by parallel efforts to deepen the nascent regional capital market, including through ongoing IMF technical assistance-supported efforts to enhance investor participation and liquidity in the regional government securities market.

Policy Roadmap to Support Private Credit Growth





Policy Pillars	Measures at the Regional Level	Measures at the National Level
Ensuring financial system soundness	• **Reduce balance sheet weaknesses:** Enforce bank provisioning standards, enhance capacity of the ECAMC to support NPL sales • **Support sustainability of credit:** Ensure common ECFSB standards provide more level regulatory playing field for credit unions and banks	• **Reduce balance sheet weaknesses:** Streamline foreclosure regimes, strengthen credit union provisioning standards • **Support sustainability of credit:** Strengthen oversight of credit union lending practices
Reducing credit market frictions	• **Reduce loan impairment costs:** Enhance capacity of the ECAMC to support NPL sales, coordinate national legislative initiatives. • **Strengthen collateral market infrastructure:** Support ongoing credit registry implementation, promote broader uptake of movable collateral registries. • **Limit credit price distortions:** Review the minimum savings rate and support efficient market price discovery.	• **Reduce loan impairment costs**: Enhancing debt enforcement regimes and insolvency frameworks, streamlined foreclosure processes. • **Strengthen collateral market infrastructure:** Development of a real estate cadaster and reviewing potential policy impediments to functioning of the secondary property market.
Strengthen private sector bankability	• Take stock of MSME support and credit-promotion initiatives to develop best practices and assess synergies with the regional institutions.	• Review existing credit-promotion initiatives to ensure coherence with regional programs and adequacy of oversight. • Consider scope for more active MSME outreach policies.

27. **Strengthening AML/CFT frameworks remains crucial amidst the scrutiny of CBI programs and thin correspondent banking relationships.** Priorities include for national authorities to address the Caribbean Financial Action Task Force (CFATF) Mutual Evaluation recommendations and complete the long-pending designation of the ECCB as the AML/CFT supervisor for banks in the remaining jurisdictions of St. Kitts and Nevis and Anguilla. Centralization

of AML/CFT regulatory standards under the ECFSB will help further address perceptions of regional risk.

28. The ECCB has taken steps to address most of the 2021 assessment's recommendations. The pending recommendation is on further strengthening the ECCB's operational autonomy and aligning its Agreement Act with leading practices. The next full safeguards assessment is due later in 2025.

Authorities' Views

29. The authorities shared staff's assessment of key financial sector risks. The banking system on the whole was seen as making significant headway in provisioning adequacy and remedial action plans are in place for the few remaining banks to reach full compliance with the ECCB's provisioning standard. The Basel II/III framework rollout is also strengthening risk-sensitivity of bank capital requirements. There was increasing recognition among authorities of the potential risks from rapid credit union expansion, with broad support for the development of common regulatory standards under the ECFSB. However, there was no consensus for a more centralized supervisory structure at this time. The authorities' perceptions of the degree of reinsurance risks varied by jurisdiction, but there was a shared concern over the recent rise in local premiums and openness to consider more systematic monitoring. The authorities noted progress in reducing regional credit constraints, particularly with the rollout of the regional credit bureau, and noted several national ongoing initiatives to support small business development, while acknowledging potential room for greater regional coordination of such initiatives.

D. Data Issues

30. Regional data provision has some shortcomings that somewhat hamper surveillance (Annex IV). National and external accounts data for regional surveillance largely rely on national member inputs, which are often constrained by capacity and resource limitations at the national central statistics offices (CSOs). Data in these areas are also limited to annual frequency and subject to release delays, increasing reliance on scant high frequency indicators. External statistics are also subject to sizeable periodic revisions and potential omissions, including due to lack of transparency over CBI investment flows. Weaknesses in timeliness, recording, and coverage of national fiscal accounts also hampers consistent cross-country analysis. The centrally supervised banking system provides a basis for well-informed core financial system surveillance, although NBFI data suffer in many instances from reporting delays and limited coverage.

31. Greater leveraging of synergies in regional data collection and processing could help address persistent resource and capacity gaps. While continued Fund/CARTAC technical assistance has proven valuable in improving data timeliness and quality, progress is often impeded by persistent staffing shortages and high turnover. A more regionalized approach to data compilation and dissemination with centralization of some functions would limit processing overlaps across member states and better leverage the limited national staffing resources.

Authorities' Views

32. There was a broad agreement on the need to strengthen adequacy of economic data yet overcoming resource and capacity constraints is a challenge. Technical assistance, including from CARTAC, was seen as highly valuable, but several authorities grapple with staffing challenges, including retention. There were varying degrees of openness to consider a more regional approach to data compilation, although some noted the root of the challenges to be local data collection that may be better supported by common standards and greater leveraging of regional expertise to build on-ground capacity. A more centralized structure to data compilation would also need to consider regional capacity limitations.

STAFF APPRAISAL

33. The ECCU has achieved a strong rebound from successive adverse shocks. Strong tourism performance and continued infrastructure investments have supported robust post-pandemic growth, while inflation has moderated in tune with global trends. This has facilitated a moderate reduction in the currency union's fiscal and external imbalances, although public debt levels and current account deficits remain high in several members. The ECCU's external position is assessed as weaker than implied by fundamentals and desirable policies, but the current account deficits remain fully financed and the stability of the ECCB's reserves underpin a strong currency backing ratio. The financial system has remained stable, albeit exhibiting continued asset quality and credit condition weaknesses.

34. Growth momentum is nonetheless projected to wane and risks to the outlook remain mostly on the downside. Increasing constraints to tourism capacity and completion of major infrastructure projects are set to slow growth to around 2½ percent over the medium term. This modest growth potential reflects weak productivity and local investment, as well as headwinds from ageing populations, a shrinking labor force, and constrained fiscal space for public investment in most union members. Downside risks to the outlook are significant amid a highly uncertain external environment, where increased trade and geopolitical tensions could give rise to renewed inflationary pressures and disruptions to tourism and FDI inflows. High public debt, persistent current account deficits, and weaknesses in the local financial system amplify vulnerability to recurrent ND shocks alongside the uncertain outlook for future CBI inflows.

35. Achieving more robust, resilient, and inclusive long-term growth would support the currency union's fiscal and external sustainability and raise living standards. To support this objective, common regional policies should be anchored in building economic, fiscal, and financial resilience and addressing supply bottlenecks that underpin the recent decades' downward trend in the region's growth potential.

36. A key policy priority is alleviating the region's structural growth impediments, which calls for a coordinated multipronged approach. Addressing frictions to employment and skills development requires a renewed effort to attune human capital to economic needs and development priorities through vocational training and modernized education systems, complemented by active labor market policies and improved access to child and elderly care. Common policies can also enhance the scale, resilience, and efficiency of the region's capital stock by helping to accelerate energy transition to local renewables, optimize the CBI funding model, and increase ND preparedness. Substantial productivity gains may also be achieved through cooperative efforts to address bottlenecks to innovation and allocative efficiency, including by digitalizing key services, streamlining licensing and administrative processes, and strengthening financial intermediation.

37. Fiscal policies should remain closely focused on rebuilding buffers, reducing public debt consistent with the regional debt anchor, and improving resilience to shocks. Region-wide adoption of strong MTFFs embedded with well-designed fiscal rules and credible policy plans would support sustainability objectives and create policy space for growth-enhancing social and resilience investment. Comprehensive fiscal resilience strategies, including adequate disaster-financing frameworks, can help alleviate periodic ND disruptions to debt sustainability and support the region's growth resilience. Strengthening fiscal management of uncertain CBI revenues can similarly alleviate risks and facilitate fiscal planning. These efforts can be supported by more institutionalized regional oversight and continued strengthening of national fiscal institutions.

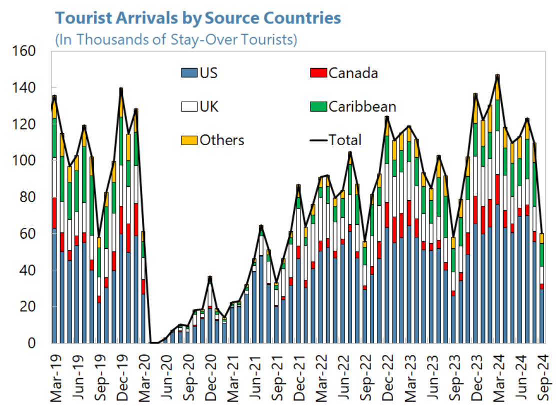
38. Enhancing financial system resilience and reducing persistent credit-frictions can support a more conducive environment for growth-supporting local investment. Regional policy priorities include reducing vulnerabilities from legacy bank balance sheet weaknesses, mitigating risks from rapid credit union expansion, building readiness to manage risks from high dependency on global reinsurance, and strengthening national AML/CFT frameworks. Common minimum NBFI regulatory standards under the planned ECFSB will be an important step toward their more unified oversight, although a more centralized supervisory structure would better facilitate management of regional stability risks. Coordinated efforts to reduce institutional frictions in local credit markets and support small ECCU businesses' bankability can help address structural challenges in financial intermediation, revive local credit and investment, and foster development of a more vibrant private sector.

39. Strengthening economic data could significantly improve regional policy design and risk management. Priorities include addressing shortcomings in coverage, quality, and timeliness of key national and external accounts and reducing significant blind spots in areas such as the regional labor markets and CBI flows. Greater leveraging of synergies in regional data compilation and processing could help address persistent resource and capacity gaps.

40. The discussion with the ECCU authorities will be held on the 12-month cycle in accordance with Decision No. 13655-(06/1), as amended.

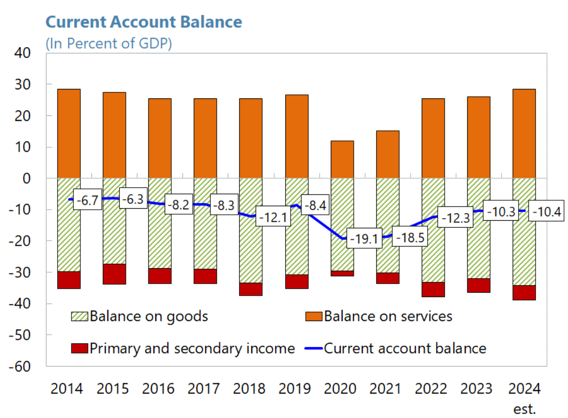
Figure 1. ECCU: External Sector Developments

The strong recovery of tourist arrivals…

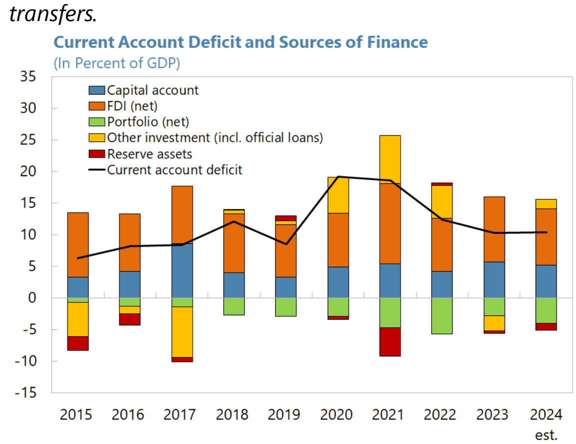


…has driven a rebound in tourism exports from very low levels in 2020.

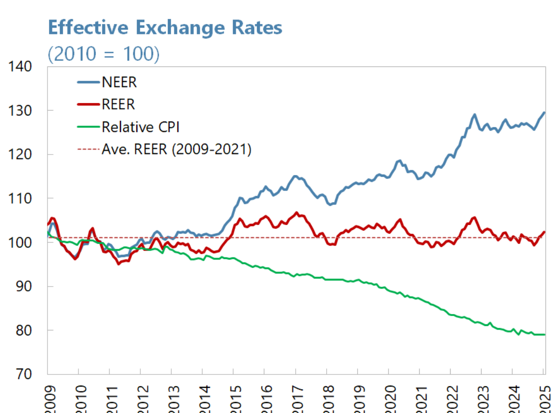
The current account deficit is gradually narrowing…



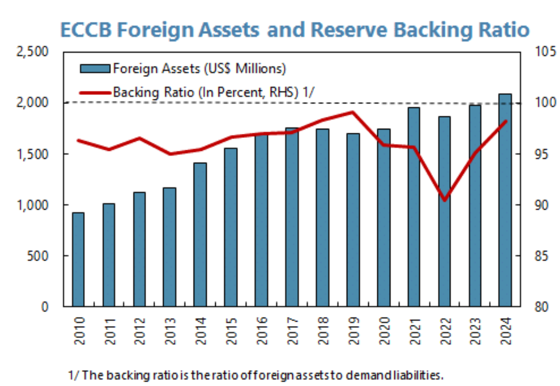
… and remains financed largely by FDI and capital transfers.



The real exchange rate has remained broadly stable…



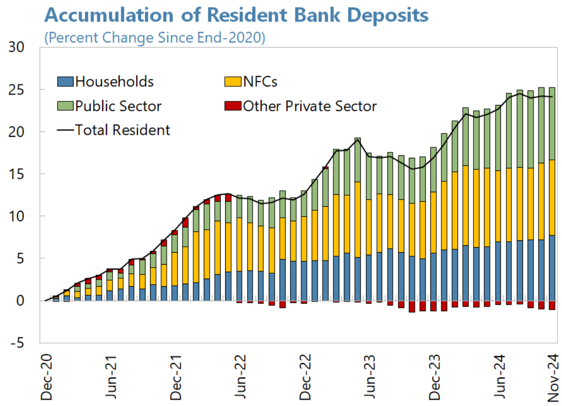
…while the international reserve backing ratio has recovered following a decline in 2021-22.



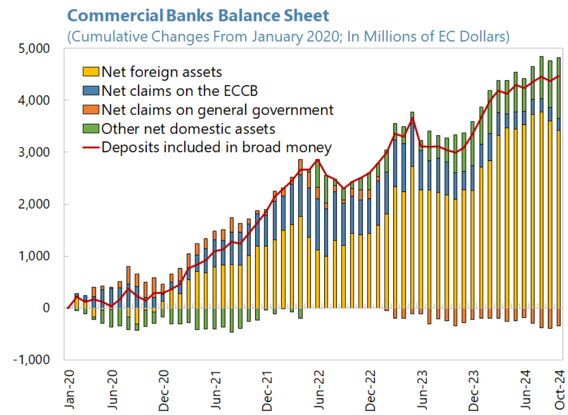
Sources: ECCB; IMF Information Notification System; and IMF staff calculations.

Figure 2. ECCU: Monetary Developments

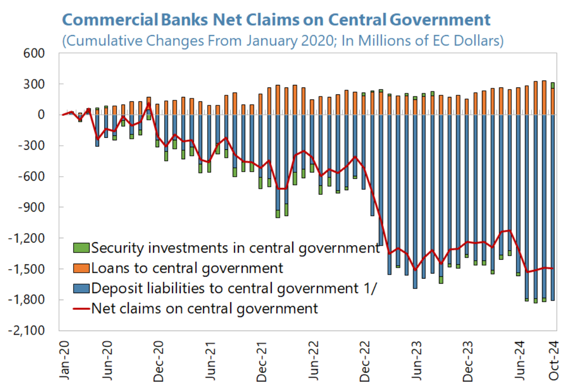
Bank deposits have continued to grow …



…which has predominantly increased foreign investments.

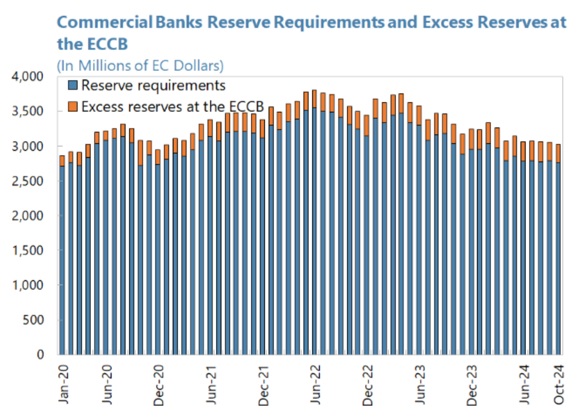


Banks' aggregate net sovereign claims have declined, in part reflecting savings of CBI revenue.

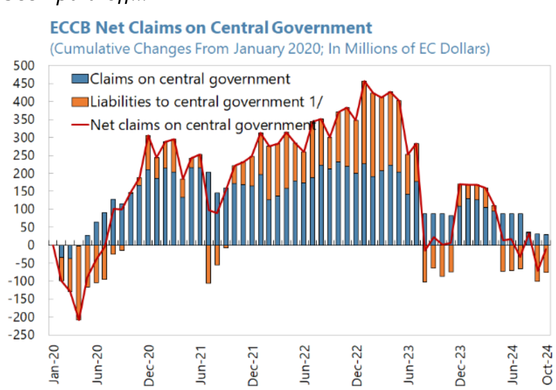


1/ Positive values reflect deposit withdrawals.

Bank excess reserves have remained stable.

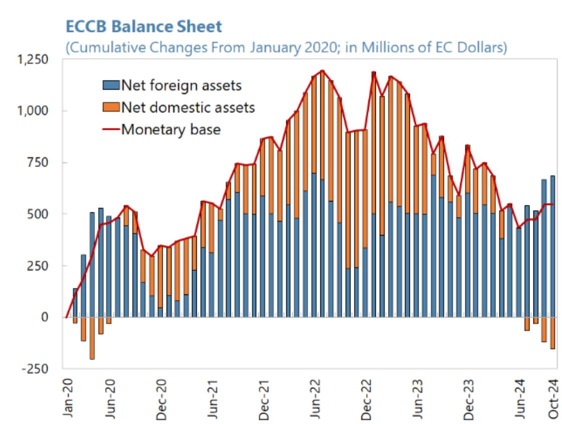


The ECCB's pandemic-period sovereign exposures have been paid off…



1/ Positive values reflect deposit withdrawals.

…normalizing the ECCB's balance sheet composition.

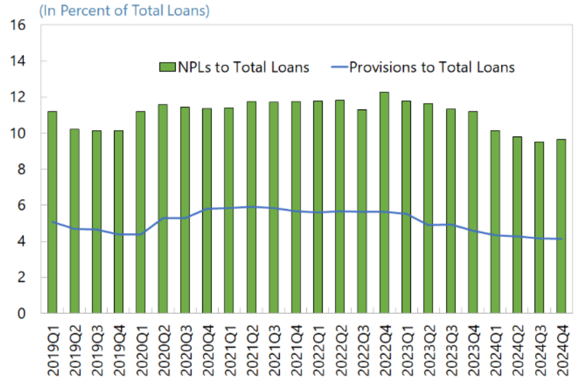


Sources: ECCB and IMF staff calculations.

Figure 3. ECCU: Financial Sector Developments: Credit Risk

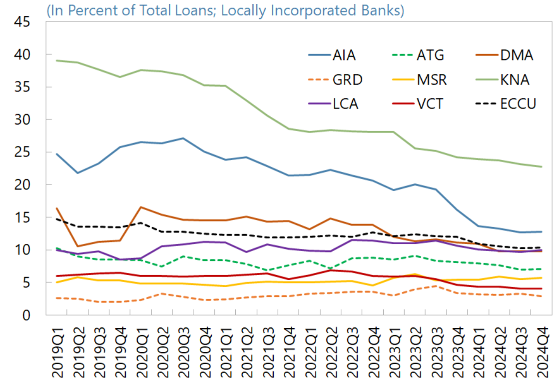
System-wide NPL ratio has gradually declined …

NPLs and Provisions to Total Loans
(In Percent of Total Loans)



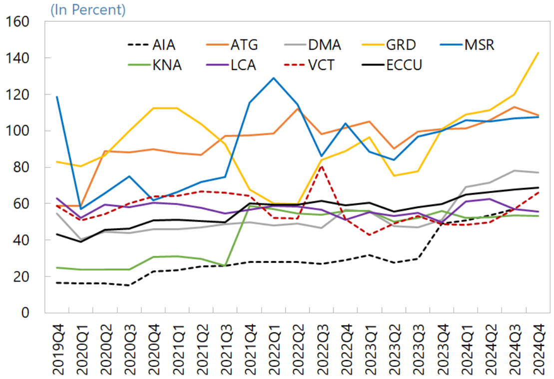
…but remains high and above the ECCB's 5 percent target ceiling in several members.

Nonperforming Loan Ratio
(In Percent of Total Loans; Locally Incorporated Banks)



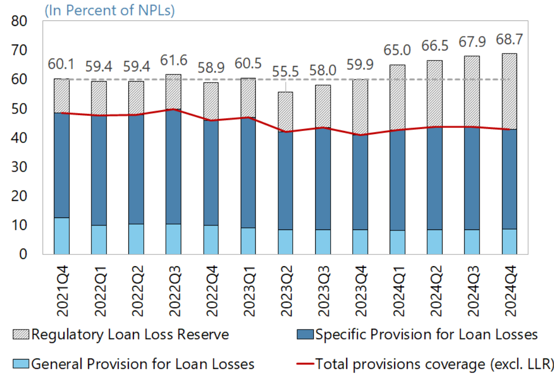
Loan-loss provisions coverage has improved …

Provisions and Reserves to NPLs
(In Percent)



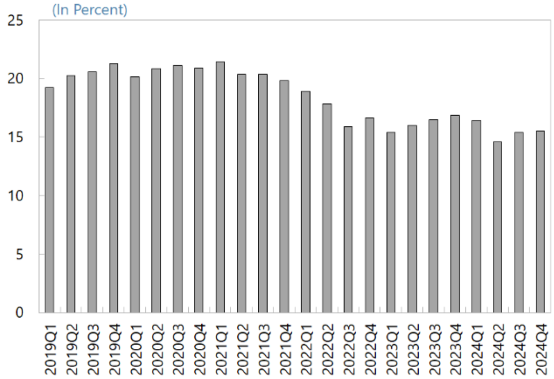
… yet some banks continue to rely heavily on non-loss-bearing regulatory reserves.

Provisioning Coverage Ratio
(In Percent of NPLs)



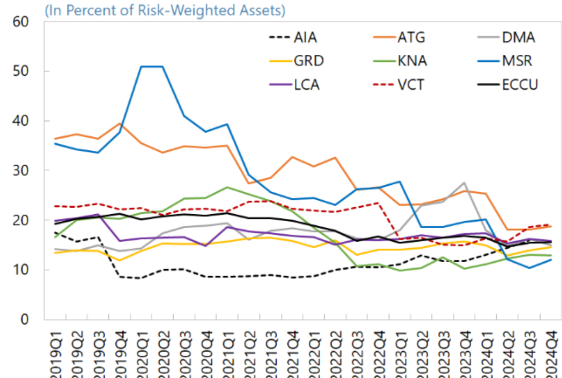
Headline capital adequacy remains stable above regulatory minima …

Capital Adequacy Ratio (CAR)
(In Percent)



… even as new Basel II/III capital requirements raised RWAs and eroded capital adequacy in several members.

Capital Adequacy Ratios
(In Percent of Risk-Weighted Assets)

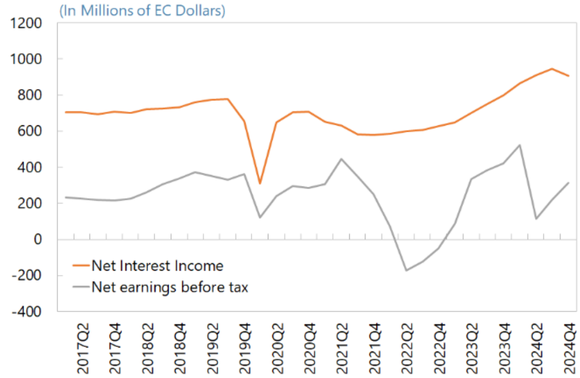


Sources: ECCB and IMF staff calculations.

Figure 4. ECCU: Financial Sector Developments: Business Developments

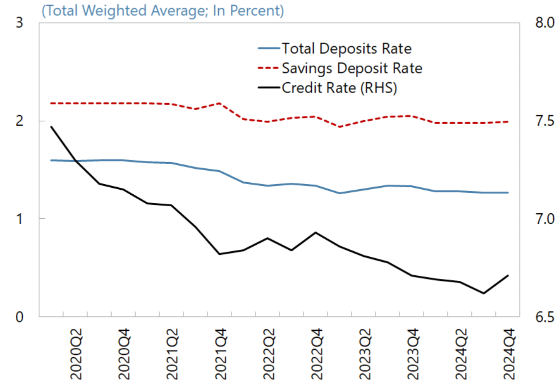
Sector profitability has recovered from the earlier temporary erosion due to losses on overseas investments…

Margins and Profitability
(In Millions of EC Dollars)



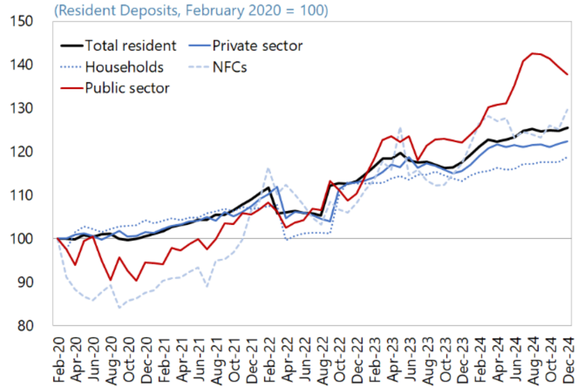
…while average lending rates have been declining.

Interest Rates
(Total Weighted Average; In Percent)



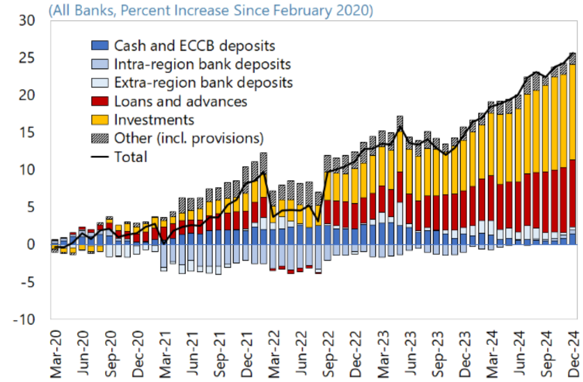
System liquidity has increased…

Accumulation of Bank Deposits
(Resident Deposits, February 2020 = 100)



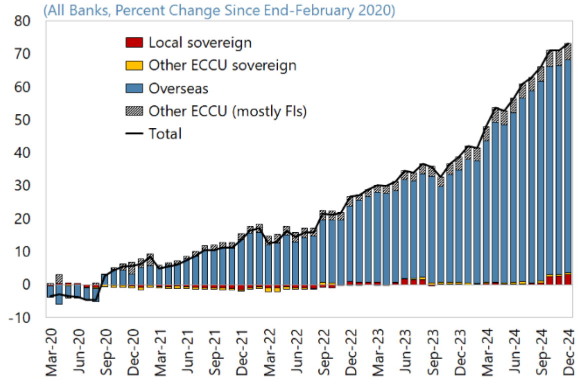
…feeding mostly investments …

Contributions to Asset Accumulation
(All Banks, Percent Increase Since February 2020)



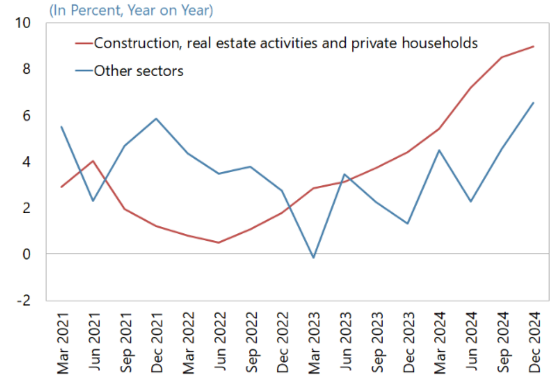
… predominantly in overseas securities.

Cumulative Contributions to Investment Growth
(All Banks, Percent Change Since End-February 2020)



Private sector lending has recently picked up, although mostly in households, construction and real estate activities.

Bank Credit Growth by Sector
(In Percent, Year on Year)



Sources: ECCB and IMF staff calculations.

Table 1. ECCU: Selected Economic and Financial Indicators, 2020–26 1/

	2020	2021	2022	2023	Est. 2024	Proj. 2025	2026
				(Annual percentage change)			
Output and Prices							
Real GDP	-17.6	6.5	11.6	3.7	3.9	3.5	2.7
GDP deflator	-2.2	4.4	4.2	3.3	2.7	1.7	2.1
Consumer prices, average	-0.6	1.7	5.6	4.0	2.3	1.9	2.0
Monetary Sector							
Net foreign assets	6.1	16.5	-0.7	11.5	4.7	2.4	3.3
Central bank	3.6	11.6	-4.8	5.4	12.3	5.9	4.4
Commercial banks (net)	8.5	21.1	2.8	16.3	-0.7	-0.5	2.4
Net domestic assets	-16.5	1.2	13.0	-5.8	7.9	9.8	7.2
Of which: private sector credit	-0.9	1.5	1.6	3.6	4.7	3.7	3.9
Broad money (M2)	-4.7	10.1	4.6	4.3	6.0	5.3	4.9
Public Finances				(In percent of GDP, unless otherwise indicated)			
Central government							
Total revenue and grants	29.0	30.5	29.7	30.0	30.8	28.3	27.3
Total expenditure and net lending	35.8	33.4	32.5	31.2	32.2	32.8	27.8
Overall balance 2/	-6.8	-2.9	-2.7	-1.3	-1.4	-4.5	-0.5
Of which: expected fiscal cost of natural disasters	0.5	0.4	0.5	0.7	0.7	0.7	0.7
Excl. Citizenship-by-Investment Programs	-11.5	-8.7	-9.3	-8.0	-7.3	-8.4	-3.6
Primary balance 2/	-4.3	-0.6	-0.5	0.9	1.1	-1.8	1.7
Total public sector debt	89.2	84.5	76.2	73.9	71.2	70.8	69.9
External Sector							
Current account balance	-19.1	-18.5	-12.3	-10.3	-10.4	-9.9	-8.3
Trade balance	-29.5	-30.1	-33.3	-32.0	-34.3	-34.1	-32.8
Exports, f.o.b. (annual percentage change)	-28.5	31.5	40.5	21.9	-9.7	14.1	11.2
Imports, f.o.b. (annual percentage change)	-23.2	15.2	29.7	5.3	11.0	5.8	1.9
Services, incomes and transfers	10.4	11.6	20.9	21.8	23.9	24.2	24.5
Of which: travel	17.1	20.5	34.6	39.8	42.2	42.2	42.5
External public debt	47.9	47.6	42.6	42.7	42.1	43.7	44.8
External debt service (percent of goods and nonfactor services)	21.3	14.8	10.3	9.0	10.3	9.1	8.6
International reserves							
In millions of U.S. dollars	1,747	1,952	1,869	1,972	2,202	2,332	2,435
In months of prospective year imports of goods and services	5.7	4.8	4.0	4.0	4.2	4.4	4.4
In percent of broad money	28.1	28.5	26.1	26.4	27.8	28.0	27.9
REER (average annual percentage change)							
Trade-weighted 3/	-0.7	-2.8	3.1	-1.1	-1.0	…	…

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 by adding individual country data.

2/ Projections include expected fiscal costs of natural disasters, estimated based on the historical averages since 1980.

3/ Excludes Anguilla and Montserrat.

Table 2. ECCU: Selected Economic Indicators by Country, 2020–30

(Annual percentage change, unless otherwise indicated)

					Est.	Proj.					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Real GDP	**-17.6**	**6.5**	**11.6**	**3.7**	**3.9**	**3.5**	**2.7**	**2.5**	**2.4**	**2.3**	**2.3**
Anguilla	-29.9	12.8	20.0	9.3	5.2	6.2	3.5	2.6	2.3	2.2	2.2
Antigua and Barbuda	-18.9	8.2	9.1	2.4	4.3	3.0	2.5	2.5	2.5	2.5	2.5
Dominica	-16.6	6.9	5.6	4.7	4.6	4.2	3.3	2.9	2.7	2.4	2.5
Grenada	-13.8	4.7	7.3	4.7	3.6	3.9	3.3	2.7	2.7	2.7	2.7
Montserrat	-1.1	5.5	2.5	3.8	4.8	3.4	2.2	2.2	2.2	2.2	2.2
St. Kitts and Nevis	-14.6	-1.7	10.5	4.3	1.5	2.0	2.2	2.6	2.6	2.7	2.6
St. Lucia	-24.4	11.6	20.4	2.2	3.8	3.1	2.4	2.0	1.7	1.5	1.5
St. Vincent and the Grenadines	-4.7	2.2	5.0	5.8	4.8	4.7	2.9	2.7	2.7	2.7	2.7
CPI (period average) 1/	**-0.6**	**1.7**	**5.6**	**4.0**	**2.3**	**1.9**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
Anguilla	-0.5	1.8	5.6	3.2	0.0	1.3	1.8	1.9	2.0	2.0	2.0
Antigua and Barbuda	1.1	1.6	7.5	5.1	6.4	3.5	2.4	2.0	2.0	2.0	2.0
Dominica	-0.7	1.6	7.7	4.2	1.9	2.2	2.0	2.0	2.0	2.0	2.0
Grenada	-0.7	1.2	2.6	2.7	1.4	1.3	2.0	2.0	2.0	2.0	2.0
Montserrat	-1.9	2.6	3.0	-1.1	2.9	2.2	2.0	2.0	2.0	2.0	2.0
St. Kitts and Nevis	-1.2	1.2	2.7	3.6	1.0	1.7	2.0	2.0	2.0	2.0	2.0
St. Lucia	-1.8	2.4	6.4	4.1	-0.5	0.8	1.6	2.0	2.0	2.0	2.0
St. Vincent and the Grenadines	-0.6	1.6	5.7	4.6	3.6	2.1	2.0	2.0	2.0	2.0	2.0
Current Account (percent GDP)	**-19.1**	**-18.5**	**-12.3**	**-10.3**	**-10.4**	**-9.9**	**-8.3**	**-7.1**	**-6.6**	**-6.5**	**-6.2**
Anguilla	-33.4	-47.5	-3.5	30.0	20.9	17.6	15.6	14.7	14.1	13.9	13.3
Antigua and Barbuda	-15.6	-17.8	-15.6	-13.5	-7.0	-10.5	-10.2	-10.1	-9.8	-9.5	-9.1
Dominica	-37.0	-33.5	-27.0	-34.2	-32.3	-30.6	-23.3	-17.3	-14.4	-14.3	-13.2
Grenada	-16.1	-14.4	-12.1	-18.4	-18.7	-15.8	-11.9	-9.8	-9.2	-9.1	-9.1
Montserrat	14.0	-18.3	-8.3	-6.7	-10.6	-5.7	-3.0	-2.6	-3.1	-3.4	-3.9
St. Kitts and Nevis	-10.8	-3.4	-11.4	-11.6	-15.1	-13.1	-12.8	-12.3	-12.2	-11.9	-11.3
St. Lucia	-18.9	-11.3	-3.6	-1.6	-1.4	-1.0	-0.9	-0.7	-0.6	-0.5	-0.5
St. Vincent and the Grenadines	-15.9	-23.2	-20.6	-16.8	-18.9	-15.4	-12.9	-10.5	-9.4	-9.1	-8.9
Overall Balance (percent of GDP) 2/	**-6.8**	**-2.9**	**-2.7**	**-1.3**	**-1.4**	**-4.5**	**-0.5**	**0.5**	**0.6**	**0.8**	**0.9**
Anguilla	1.3	9.5	11.2	11.6	8.6	-1.5	4.3	6.8	7.2	7.6	8.0
Antigua and Barbuda	-6.2	-4.5	-2.8	-1.7	2.5	-1.3	-1.0	-0.6	-0.6	-0.5	-0.5
Dominica	-7.5	-8.2	-8.7	-6.0	-4.4	-4.2	-3.7	-3.1	-2.8	-2.5	-2.0
Grenada	-4.5	0.3	1.0	8.0	6.7	-8.8	-3.3	-0.2	-0.1	0.0	0.3
Montserrat	-4.0	1.2	3.9	4.3	3.3	3.1	-0.5	-0.5	-0.3	-0.2	0.0
St. Kitts and Nevis	-3.1	5.4	-4.2	-0.3	-10.6	-9.8	-6.6	-4.6	-4.7	-4.8	-4.9
St. Lucia	-11.4	-4.8	-1.6	-2.6	-2.0	-2.8	-3.4	-3.3	-3.0	-2.6	-2.7
St. Vincent and the Grenadines	-5.9	-7.2	-9.3	-11.9	-12.5	-7.7	-0.6	0.6	0.7	0.8	1.0
Public Sector Debt (percent of GDP)	**89.2**	**84.5**	**76.2**	**73.9**	**71.2**	**70.8**	**69.9**	**69.1**	**67.9**	**66.8**	**65.4**
Anguilla	68.3	55.1	39.8	31.5	26.8	24.6	22.8	21.4	20.8	21.7	21.7
Antigua and Barbuda	100.5	93.0	82.0	76.3	67.1	63.4	63.4	62.7	61.2	59.9	58.0
Dominica	112.5	108.5	104.3	99.9	101.0	97.8	95.2	92.5	89.9	87.2	84.3
Grenada	89.5	86.6	78.8	75.2	73.2	71.4	66.5	65.2	62.9	60.7	58.2
Montserrat	6.0	5.2	4.5	3.7	3.2	3.0	3.1	3.1	2.9	2.7	2.6
St. Kitts and Nevis	68.0	69.1	60.2	55.9	52.2	61.4	65.6	67.3	69.0	70.6	72.4
St. Lucia	95.0	81.9	73.4	74.8	74.0	73.6	73.8	74.0	74.0	73.7	73.5
St. Vincent and the Grenadines	80.0	88.4	86.3	89.2	92.7	93.5	90.1	86.3	82.4	78.5	74.6

Sources: Country authorities; and Fund staff estimates and projections.
1/ The weighted average inflation using nominal GDP to assign weights.
2/ Projections include expected fiscal costs of natural disasters, estimated based on the historical averages since 1980.

Table 3. ECCU: Selected Central Government Fiscal Indicators by Country, 2020–30 1/
(In percent of GDP)

					Est.	Proj.					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Revenues and Grants	**29.0**	**30.5**	**29.7**	**30.0**	**30.8**	**28.3**	**27.3**	**27.2**	**27.1**	**27.0**	**26.9**
Anguilla	35.0	36.3	33.6	33.9	37.2	39.7	36.2	35.7	35.2	34.7	34.3
Antigua and Barbuda	19.8	18.9	17.9	17.1	21.4	19.9	20.1	20.2	20.1	20.0	19.9
Dominica	59.2	58.8	62.8	60.2	55.6	48.5	39.4	38.8	38.7	38.5	38.3
Grenada	28.1	31.5	32.7	36.9	43.9	30.8	29.2	29.2	28.9	28.8	28.8
Montserrat	88.7	82.6	81.2	87.3	85.6	84.7	79.6	79.4	79.2	79.0	78.8
St. Kitts and Nevis	33.5	46.6	45.2	43.0	31.1	32.5	33.2	33.2	33.2	33.2	33.2
St. Lucia	21.7	21.0	21.0	21.5	22.7	22.6	22.5	22.4	22.3	22.3	22.3
St. Vincent and the Grenadines	28.9	30.9	27.3	27.0	28.7	28.8	28.8	28.8	28.8	28.8	28.8
Current Expenditure	**27.9**	**26.1**	**24.2**	**23.5**	**24.5**	**24.9**	**22.6**	**22.3**	**22.2**	**22.2**	**22.1**
Anguilla	32.3	26.1	22.1	20.3	22.7	26.7	24.0	23.1	22.5	21.9	21.3
Antigua and Barbuda	23.2	21.1	18.3	17.0	17.6	17.7	17.4	17.2	17.1	17.0	17.0
Dominica	38.7	40.2	34.2	30.0	30.6	30.2	30.0	29.8	29.7	29.7	29.8
Grenada	23.1	22.7	21.6	19.6	25.1	27.4	23.8	23.4	23.4	23.3	23.1
Montserrat	77.7	70.3	70.6	73.8	73.2	72.4	70.8	70.7	70.3	70.0	69.7
St. Kitts and Nevis	30.7	34.7	38.4	39.2	35.3	36.5	22.8	21.9	21.9	21.9	21.9
St. Lucia	27.6	21.4	19.9	20.4	21.1	21.4	21.5	21.7	21.7	21.7	21.8
St. Vincent and the Grenadines	27.4	28.9	25.7	25.8	27.1	25.6	24.4	24.1	23.9	23.8	23.6
Capital Expenditure	**7.8**	**7.3**	**8.3**	**7.7**	**7.7**	**7.8**	**5.2**	**4.4**	**4.2**	**4.0**	**3.9**
Anguilla	1.2	0.5	0.1	1.7	5.8	14.3	7.7	5.5	5.3	5.1	4.9
Antigua and Barbuda	2.8	2.3	2.4	1.8	1.3	3.5	3.6	3.6	3.6	3.5	3.4
Dominica	28.1	26.8	35.7	34.7	27.8	21.0	11.6	10.6	10.3	9.8	9.0
Grenada	9.6	8.6	10.2	9.3	12.1	12.2	8.7	6.0	5.7	5.5	5.4
Montserrat	15.0	11.1	6.7	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2
St. Kitts and Nevis	7.5	8.3	13.2	5.8	7.4	6.7	1.7	1.7	1.7	1.7	1.7
St. Lucia	5.6	4.5	2.8	3.7	2.9	3.3	3.7	3.3	2.9	2.5	2.5
St. Vincent and the Grenadines	7.5	9.1	10.9	13.1	14.0	11.0	5.1	4.2	4.2	4.2	4.2
Primary Balance 2/	**-4.3**	**-0.6**	**-0.5**	**0.9**	**1.1**	**-1.8**	**1.7**	**2.6**	**2.7**	**2.9**	**2.9**
Anguilla	3.7	11.2	12.6	12.9	9.7	-0.5	5.1	7.5	7.8	8.1	8.4
Antigua and Barbuda	-3.7	-2.3	-0.3	0.5	4.6	0.7	0.8	1.0	1.0	1.0	1.0
Dominica	-5.4	-5.6	-5.8	-3.5	-1.3	-1.1	-0.8	-0.5	-0.3	0.0	0.5
Grenada	-2.6	2.1	2.6	9.5	10.0	-4.4	-1.3	1.5	1.5	1.5	1.5
Montserrat	-3.8	1.4	4.1	4.4	3.3	3.2	-0.4	-0.5	-0.3	-0.2	0.0
St. Kitts and Nevis	-1.7	6.6	-2.9	0.9	-9.4	-8.6	-4.5	-2.3	-2.3	-2.3	-2.3
St. Lucia	-7.6	-1.7	1.2	0.7	2.1	1.4	0.8	0.9	1.3	1.8	1.8
St. Vincent and the Grenadines	-3.7	-4.6	-7.0	-9.4	-9.3	-4.7	2.2	3.2	3.2	3.2	3.2
Overall Balance 2/	**-6.8**	**-2.9**	**-2.7**	**-1.3**	**-1.4**	**-4.5**	**-0.5**	**0.5**	**0.6**	**0.8**	**0.9**
Anguilla	1.3	9.5	11.2	11.6	8.6	-1.5	4.3	6.8	7.2	7.6	8.0
Antigua and Barbuda	-6.2	-4.5	-2.8	-1.7	2.5	-1.3	-1.0	-0.6	-0.6	-0.5	-0.5
Dominica	-7.5	-8.2	-8.7	-6.0	-4.4	-4.2	-3.7	-3.1	-2.8	-2.5	-2.0
Grenada	-4.5	0.3	1.0	8.0	6.7	-8.8	-3.3	-0.2	-0.1	0.0	0.3
Montserrat	-4.0	1.2	3.9	4.3	3.3	3.1	-0.5	-0.5	-0.3	-0.2	0.0
St. Kitts and Nevis	-3.1	5.4	-4.2	-0.3	-10.6	-9.8	-6.6	-4.6	-4.7	-4.8	-4.9
St. Lucia	-11.4	-4.8	-1.6	-2.6	-2.0	-2.8	-3.4	-3.3	-3.0	-2.6	-2.7
St. Vincent and the Grenadines	-5.9	-7.2	-9.3	-11.9	-12.5	-7.7	-0.6	0.6	0.7	0.8	1.0

Sources: Country authorities; and Fund staff estimates and projections.
1/ Fiscal years for Dominica, Montserrat (since 2010) and St. Lucia.
2/ Projections include expected fiscal costs of natural disasters, estimated based on the historical averages since 1980.

Table 4. ECCU: Selected Public Sector Debt Indicators by Country, 2020–30 1/

					Est.	Proj.					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					(In percent of GDP)						
Total Public Sector Debt	**89.2**	**84.5**	**76.2**	**73.9**	**71.2**	**70.8**	**69.9**	**69.1**	**67.9**	**66.8**	**65.4**
Anguilla	68.3	55.1	39.8	31.5	26.8	24.6	22.8	21.4	20.8	21.7	21.7
Antigua and Barbuda	100.5	93.0	82.0	76.3	67.1	63.4	63.4	62.7	61.2	59.9	58.0
Dominica	112.5	108.5	104.3	99.9	101.0	97.8	95.2	92.5	89.9	87.2	84.3
Grenada	89.5	86.6	78.8	75.2	73.2	71.4	66.5	65.2	62.9	60.7	58.2
Montserrat	6.0	5.2	4.5	3.7	3.2	3.0	3.1	3.1	2.9	2.7	2.6
St. Kitts and Nevis	68.0	69.1	60.2	55.9	52.2	61.4	65.6	67.3	69.0	70.6	72.4
St. Lucia	95.0	81.9	73.4	74.8	74.0	73.6	73.8	74.0	74.0	73.7	73.5
St. Vincent and the Grenadines	80.0	88.4	86.3	89.2	92.7	93.5	90.1	86.3	82.4	78.5	74.6
External Debt	**47.9**	**47.6**	**42.6**	**42.7**	**42.1**	**43.7**	**44.8**	**45.6**	**45.9**	**45.9**	**45.6**
Anguilla	27.5	23.9	16.9	13.3	12.5	11.6	10.7	9.8	9.1	8.5	7.9
Antigua and Barbuda	47.5	45.5	39.4	36.0	30.9	31.1	34.5	37.3	39.7	40.7	41.2
Dominica	70.9	70.2	66.7	64.2	69.6	66.0	67.4	68.1	68.9	70.1	69.2
Grenada	69.7	67.5	62.4	60.6	58.9	58.7	55.8	55.4	53.4	51.2	48.8
Montserrat	5.1	4.5	4.0	3.4	3.0	2.9	2.7	2.5	2.3	2.2	2.1
St. Kitts and Nevis	15.3	14.8	12.6	10.9	11.0	20.6	26.4	29.9	33.4	37.0	40.5
St. Lucia	45.5	42.6	37.8	43.2	43.3	43.6	44.0	44.3	44.4	44.3	44.2
St. Vincent and the Grenadines	55.2	65.7	63.3	64.0	67.7	73.1	72.7	69.7	66.7	63.6	61.2
Domestic Debt	**41.3**	**37.0**	**33.6**	**31.2**	**29.1**	**27.1**	**25.1**	**23.5**	**22.0**	**20.9**	**19.8**
Anguilla	40.8	31.3	22.9	18.3	14.2	13.1	12.1	11.5	11.7	13.1	13.8
Antigua and Barbuda	53.0	47.4	42.6	40.3	36.2	32.3	28.9	25.3	21.5	19.1	16.8
Dominica	41.6	38.3	37.6	35.7	31.4	31.8	27.7	24.3	21.0	17.1	15.1
Grenada	19.8	19.0	16.4	14.6	14.2	12.6	10.7	9.9	9.5	9.5	9.5
Montserrat	0.9	0.7	0.5	0.3	0.2	0.1	0.4	0.6	0.6	0.6	0.5
St. Kitts and Nevis	52.7	54.3	47.6	45.0	41.2	40.8	39.2	37.4	35.5	33.7	31.8
St. Lucia	49.4	39.3	35.6	31.6	30.7	30.0	29.8	29.7	29.6	29.4	29.3
St. Vincent and the Grenadines	24.8	22.6	23.0	25.2	25.0	20.5	17.4	16.6	15.7	14.9	13.4
						(In percent)					
Implied Interest Rates on Central Government External Debt											
Anguilla	4.6	3.3	3.7	5.3	5.4	4.8	4.4	3.9	3.6	3.3	3.0
Antigua and Barbuda	2.7	2.8	3.3	3.1	3.1	2.9	3.0	2.9	3.0	3.2	3.4
Dominica	1.4	1.3	2.7	2.5	1.6	1.7	1.5	1.5	1.5	1.6	1.6
Grenada	2.6	2.4	2.3	2.2	6.1	8.5	3.7	3.1	3.1	3.0	2.4
Montserrat	2.5	3.1	3.1	3.2	2.2	2.0	2.1	2.1	2.1	2.1	1.6
St. Kitts and Nevis	2.5	2.4	2.3	2.7	2.4	1.1	2.1	2.5	2.6	2.7	2.8
St. Lucia	3.5	3.0	3.2	3.7	3.7	4.5	4.4	4.6	4.7	4.9	5.1
St. Vincent and the Grenadines	1.7	1.6	1.8	2.0	2.6	2.5	2.3	2.2	2.1	2.0	1.8
Implied Interest Rates on Central Government Domestic Debt											
Anguilla	3.2	3.1	3.4	3.1	3.6	3.3	2.9	2.6	2.1	1.6	1.3
Antigua and Barbuda	3.0	2.8	4.0	3.5	4.3	4.5	4.1	3.7	3.6	3.1	3.1
Dominica	3.7	5.7	4.5	3.9	7.1	6.8	7.3	7.2	7.4	8.5	9.0
Grenada	3.4	3.2	3.7	3.5	3.4	4.0	4.5	4.0	3.8	3.7	3.8
Montserrat	4.9	3.1	4.1	4.6	5.5	6.4	1.2	2.7	4.0	4.0	4.0
St. Kitts and Nevis	3.1	2.7	3.3	3.2	3.6	3.9	6.4	6.7	7.0	7.2	7.5
St. Lucia	4.9	5.3	5.3	6.4	6.6	6.1	6.1	6.1	6.1	6.0	6.0
St. Vincent and the Grenadines	5.9	7.2	5.5	5.2	5.8	5.6	5.6	5.4	5.2	5.5	5.6

Sources: Country authorities; and Fund staff estimates and projections.
1/ Fiscal years for Dominica, Montserrat (since 2010) and St. Lucia.

Table 5. ECCU: Summary Balance of Payments, 2020–30

					Est.	Proj.					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	(In millions of U.S. dollars)										
Current Account	**-1,249**	**-1,347**	**-1,042**	**-930**	**-1,001**	**-1,003**	**-883**	**-794**	**-771**	**-786**	**-794**
Trade balance	-1,927	-2,189	-2,811	-2,900	-3,308	-3,467	-3,493	-3,531	-3,634	-3,743	-3,861
Exports	192	253	355	433	391	446	497	544	585	621	659
Imports	2,120	2,442	3,167	3,333	3,700	3,914	3,989	4,075	4,218	4,365	4,520
Services	783	1,095	2,154	2,361	2,749	2,922	3,086	3,237	3,385	3,506	3,641
Transportation	-208	-254	-356	-382	-407	-428	-449	-470	-492	-513	-536
Travel	1,117	1,488	2,926	3,608	4,072	4,292	4,534	4,757	4,979	5,189	5,399
Other services	-125	-139	-415	-865	-915	-942	-999	-1,050	-1,103	-1,170	-1,222
Primary income	-110	-259	-391	-419	-495	-489	-506	-530	-554	-581	-608
Secondary income	5	6	6	28	53	32	30	30	31	33	35
Capital Account	**320**	**387**	**356**	**512**	**495**	**358**	**293**	**254**	**256**	**284**	**326**
Financial Account	**-698**	**-805**	**-699**	**-418**	**-506**	**-644**	**-590**	**-539**	**-515**	**-502**	**-468**
Direct investment	-555	-922	-705	-932	-862	-796	-771	-787	-798	-814	-839
Portfolio investment	192	347	485	255	388	120	128	131	135	141	146
Other investment	-370	-556	-444	216	-144	41	4	71	169	173	257
Public sector long-term loans	-275	-355	-127	-296	-299	-229	-173	-182	-164	-132	-121
Deposit-taking corporations	-92	-9	-297	380	-18	-12	63	58	-54	-762	-483
Others	-3	-193	-20	132	174	282	114	195	387	1,067	861
Reserve assets	35	325	-34	43	112	-9	49	46	-21	-1	-32
Errors and omissions	139	29	-63	0	0	0	0	0	0	0	0
	(In percent of GDP)										
Current Account	**-19.1**	**-18.5**	**-12.3**	**-10.3**	**-10.4**	**-9.9**	**-8.3**	**-7.1**	**-6.6**	**-6.5**	**-6.2**
Trade balance	-29.5	-30.1	-33.3	-32.0	-34.3	-34.1	-32.8	-31.7	-31.2	-30.7	-30.3
Exports	2.9	3.5	4.2	4.8	4.1	4.4	4.7	4.9	5.0	5.1	5.2
Imports	32.5	33.6	37.5	36.8	38.3	38.5	37.4	36.5	36.2	35.8	35.5
Services	12.0	15.1	25.5	26.1	28.5	28.7	28.9	29.0	29.0	28.8	28.6
Of which: travel	17.1	20.5	34.6	39.8	42.2	42.2	42.5	42.6	42.7	42.6	42.4
Primary income	-1.7	-3.6	-4.6	-4.6	-5.1	-4.8	-4.7	-4.7	-4.8	-4.8	-4.8
Secondary income	0.1	0.1	0.1	0.3	0.6	0.3	0.3	0.3	0.3	0.3	0.3
Capital Account	**4.9**	**5.3**	**4.2**	**5.7**	**5.1**	**3.5**	**2.7**	**2.3**	**2.2**	**2.3**	**2.6**
Financial Account	**-10.7**	**-11.1**	**-8.3**	**-4.6**	**-5.2**	**-6.3**	**-5.5**	**-4.8**	**-4.4**	**-4.1**	**-3.7**
Of which: direct investment	-8.5	-12.7	-8.3	-10.3	-8.9	-7.8	-7.2	-7.1	-6.8	-6.7	-6.6
	(Annual percentage change)										
Exports	-28.5	31.5	40.5	21.9	-9.7	14.1	11.2	9.5	7.5	6.2	6.1
Imports	-23.2	15.2	29.7	5.3	11.0	5.8	1.9	2.1	3.5	3.5	3.6
Travel (net)	-64.4	33.2	96.7	23.3	12.9	5.4	5.6	4.9	4.7	4.2	4.1
Direct investment	-17.4	66.1	-23.5	32.0	-7.5	-7.6	-3.1	2.0	1.4	2.1	3.0
Memorandum Items:											
Gross reserves of the ECCB (in US$ million)	1,747	1,952	1,869	1,972	2,202	2,332	2,435	2,436	2,436	2,436	2,437
In months of total imports in year t+1	5.7	4.8	4.0	4.0	4.2	4.4	4.4	4.2	4.1	3.9	…

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

Table 6. ECCU: Selected Vulnerability Indicators, 2019–24
(Annual percentage change unless otherwise indicated)

	2019	2020	2021	2022	2023	Est. 2024
External Indicators						
Current account balance (percent of GDP)	-8.4	-19.1	-18.5	-12.3	-10.3	-10.4
FDI inflows (percent of GDP)	9.4	7.7	11.6	8.5	10.1	9.0
Export growth (goods)	35.8	-28.5	31.5	40.5	21.9	-9.7
Import growth (goods)	-1.4	-23.2	15.2	29.7	5.3	11.0
Travel receipts (percent of GDP)	38.7	17.1	20.5	34.6	39.8	42.2
Real effective exchange rate 1/	2.8	1.9	0.2	6.5	1.6	0.5
Total gross external public debt (percent of GDP)	34.5	48.7	48.5	42.9	42.9	42.3
Gross external financing requirement (in US$ million	1,026	1,621	1,661	1,391	1,281	1,422
Gross international reserves (in US$ million)	1,698	1,747	1,952	1,869	1,972	2,202
Net international reserves (in US$ million)	1,675	1,736	1,936	1,843	1,942	2,181
ECCB reserve cover (in percent) 2/	99.1	96.0	95.8	90.5	95.0	98.1
Public Finance Indicators (percent of GDP)						
Overall central government balance	-2.2	-6.8	-2.9	-2.7	-1.3	-1.4
Primary central government balance	0.0	-4.3	-0.6	-0.5	0.9	1.1
Central government current account balance	0.3	-2.1	0.7	3.1	4.6	4.3
Public sector gross debt (end-of-period)	67.3	89.2	84.5	76.2	73.9	71.2
Financial Soundness Indicators (in percent)						
Capital adequacy ratio (indigenous banks, total capital over adjusted risk-weighted assets)	21.3	20.9	19.9	16.7	16.8	15.5
NPLs/total loans	10.1	11.6	12.1	12.3	11.2	9.6
FX deposits/total deposits	16.6	15.6	16.9	18.3	18.9	19.4
Liquid assets/total assets	40.4	38.4	38.2	38.6	39.3	39.9
Liquid assets/short-term liabilities	44.6	45.0	43.1	43.0	43.5	44.7
Return on average assets	1.4	1.0	0.9	-0.2	1.3	0.5

Sources: Country authorities; and Fund staff estimates and projections.
1/ Excludes Anguilla and Montserrat.
2/ Foreign assets as a percentage of demand liabilities. 2023 data is from published September 2023 figure.

Table 7. ECCU: Financial Soundness Indicators of the Banking Sector, 2019–24
(In percent)

	2019	2020	2021	2022	2023	2024
Capital adequacy						
Regulatory capital to risk-weighted assets (CAR) 1/	21.3	20.9	19.9	16.7	16.8	15.5
Regulatory Tier 1 capital to risk-weighted assets 1/	17.7	17.2	16.9	13.6	12.9	10.6
Asset composition and quality						
Total loans to total assets 2/	44.1	46.5	44.9	44.5	44.3	43.8
Sectoral distribution of loans to total loans						
Loans to residents	96.1	96.2	96.0	95.5	95.9	95.2
Deposit taking financial corporations	0.5	0.3	0.2	0.2	0.2	0.2
Other financial corporations	0.9	0.9	0.9	1.0	0.9	0.8
General government	12.1	10.8	10.6	10.3	9.8	9.8
Nonfinancial corporations	29.0	31.0	32.5	30.7	31.9	33.2
Households and other	53.6	53.2	51.8	53.3	52.8	51.0
Loans to non residents	3.9	3.8	4.0	4.6	4.1	4.8
Nonperforming loans to total gross loans	10.1	11.6	12.1	12.3	11.2	9.6
Total provisions to nonperforming loans 2/	43.0	50.9	48.4	45.9	40.9	42.9
Earnings and profitability						
Return on average assets (ROA)	1.4	1.0	0.9	-0.2	1.3	0.5
Noninterest expenses to gross income	64.7	62.2	70.7	100.0	68.3	71.5
Personnel expenses to noninterest expenses	30.9	29.4	32.2	19.5	27.9	29.8
Interest margin to gross income	58.6	46.5	50.6	47.3	51.5	52.7
Spread between reference lending and deposit rates 3/	6.4	5.6	5.3	5.6	5.4	5.4
Liquidity						
Liquid assets to total assets	40.4	38.4	38.2	38.6	39.3	39.9
Liquid assets to short-term liabilities	44.6	45.0	43.1	43.0	43.5	44.7
Loans to deposits	64.2	67.5	63.5	62.6	61.4	62.0
Sensitivity to market risk						
Foreign-currency-denominated loans to total loans	11.5	11.7	11.8	13.6	12.6	12.1
Foreign-currency-denominated liabilities to total liabilities	21.1	19.8	17.5	18.1	17.7	19.6

Sources: Eastern Caribbean Central Bank (ECCB); and IMF staff calculations.
1/ Data available only for locally incorporated banks.
2/ Indicator not included in standard FSIs.
3/ Weighted average lending rates less weighted average deposit rates.

Table 8. ECCU: Financial Soundness Indicators of the Banking Sector by Country, 2019–24

(In percent)

	2019	2020	2021	2022	2023	2024
Regulatory capital to risk-weighted assets (CAR) 1/	**21.3**	**20.9**	**19.9**	**16.7**	**16.8**	**15.5**
Anguilla	8.6	8.6	8.5	10.5	11.8	16.3
Antigua and Barbuda	39.4	34.6	32.8	26.7	25.8	18.7
Dominica	13.9	18.9	19.1	15.9	27.5	15.0
Grenada	11.9	15.1	15.8	14.1	15.7	14.5
Montserrat	37.7	37.8	24.1	26.5	19.6	12.0
St. Kitts and Nevis	20.2	24.5	21.8	11.1	10.3	12.9
St. Lucia	15.9	14.9	16.8	15.9	17.3	15.9
St. Vincent and the Grenadines	22.2	22.4	22.4	23.4	15.0	19.1
Regulatory Tier 1 capital to risk-weighted assets 1/	**17.7**	**17.2**	**16.9**	**13.6**	**12.9**	**10.6**
Anguilla	7.4	8.1	7.6	7.0	7.8	6.1
Antigua and Barbuda	31.9	28.6	27.9	21.3	19.9	14.7
Dominica	11.7	16.4	17.0	14.0	23.2	11.1
Grenada	7.8	13.3	14.2	12.7	11.6	10.3
Montserrat	35.9	33.5	20.1	24.8	23.9	12.5
St. Kitts and Nevis	19.4	17.2	16.8	7.8	6.8	5.4
St. Lucia	10.0	10.4	14.4	14.2	13.6	12.1
St. Vincent and the Grenadines	23.8	22.8	20.9	21.0	11.3	13.0
Nonperforming loans to total gross loans	**10.1**	**11.6**	**12.1**	**12.3**	**11.2**	**9.6**
Anguilla	25.8	25.1	21.4	20.7	14.5	12.8
Antigua and Barbuda	5.3	7.4	7.8	6.9	6.1	5.3
Dominica	12.2	15.0	15.7	13.8	12.9	11.8
Grenada	2.2	2.2	2.9	3.6	3.4	2.9
Montserrat	5.5	5.0	5.1	4.6	5.4	5.8
St. Kitts and Nevis	24.0	23.5	20.9	21.8	19.4	18.1
St. Lucia	8.2	11.3	13.8	14.2	14.5	11.9
St. Vincent and the Grenadines	6.4	7.4	7.8	10.1	8.1	7.0
Total provisions to nonperforming loans 2/	**43.0**	**50.9**	**48.4**	**45.9**	**40.9**	**43.7**
Anguilla	16.4	22.6	27.8	28.8	24.7	30.4
Antigua and Barbuda	58.7	90.0	84.3	88.8	87.7	98.9
Dominica	54.6	45.8	49.1	48.9	42.3	56.5
Grenada	82.8	112.5	67.8	84.1	77.9	70.0
Montserrat	118.6	61.7	59.9	97.3	94.5	106.9
St. Kitts and Nevis	24.7	30.8	26.9	26.2	17.9	14.8
St. Lucia	63.0	60.4	54.8	45.3	40.3	43.5
St. Vincent and the Grenadines	58.8	64.0	59.2	48.5	45.2	51.3
Return on average assets (ROA)	**1.4**	**1.0**	**0.9**	**-0.2**	**1.3**	**0.5**
Anguilla	0.9	0.4	1.4	1.2	2.0	2.1
Antigua and Barbuda	1.4	0.4	0.7	0.8	1.8	0.5
Dominica	2.9	0.9	0.2	-0.9	0.9	0.4
Grenada	1.4	0.4	0.3	0.5	1.2	0.4
Montserrat	-0.1	-0.3	0.0	0.5	1.5	0.4
St. Kitts and Nevis	0.9	2.6	1.9	-3.5	1.0	0.3
St. Lucia	1.5	0.8	0.8	1.2	1.4	0.5
St. Vincent and the Grenadines	1.1	0.1	0.4	0.3	0.9	0.4
Liquid assets to total assets	**40.4**	**38.4**	**38.2**	**38.6**	**39.3**	**39.9**
Anguilla	48.3	45.0	50.4	47.2	51.3	53.5
Antigua and Barbuda	46.4	36.9	40.5	43.6	44.1	44.2
Dominica	46.7	48.9	46.1	48.1	50.5	48.2
Grenada	43.5	46.8	44.9	49.1	49.8	52.3
Montserrat	71.5	78.2	74.1	79.5	80.0	80.3
St. Kitts and Nevis	55.9	58.4	51.6	51.8	47.8	46.4
St. Lucia	40.4	37.8	39.3	43.6	46.9	51.4
St. Vincent and the Grenadines	41.7	44.0	47.2	48.4	43.1	46.2

Sources: Eastern Caribbean Central Bank (ECCB); and IMF staff calculations.
1/ Data available only for locally incorporated banks.
2/ Indicator not included in standard FSIs.

Annex I. Implementation of Past Fund Advice[1]

Recommendations from the 2024 Common Policies Discussion	Authorities' Actions
Protecting Fiscal Space for Social Spending and Public Investment within Public Debt Sustainability Bounds	
1. Adopt common regional standards for country-specific fiscal rules.	**Limited progress.** While a few member countries have made strides in establishing National Fiscal Responsibility Frameworks, a comprehensive legislative framework and effective operational framework are still lacking in most member countries. Grenada's inclusion of a disaster clause in their fiscal framework could be extended to other member countries.
2. Improve the targeting of social assistance.	**Ongoing in some countries.** Reforms to improve the efficiency of the social assistance system are ongoing in St. Kitts and Nevis and St. Vincent and the Grenadines.
3. Streamline tax exemptions with common benchmarks.	**Limited and mixed progress.** Antigua and Barbuda (ATG) authorities' have capped discretionary tax exemptions and increased sales tax rates (from 15 (standard rate) and 14 (reduced rate for tourism) to 17 percent) as well as high-end properties rates. ATG and St. Lucia increased/introduced excise tax on tobacco, alcohol, or cannabis products. On the other hand, tax expenditures increased for St. Kitts and Nevis.
4. Adopt fuel price pass-through frameworks to protect tax revenue and stabilize demand.	**Limited progress.**
5. Pass comprehensive reforms to improve the sustainability, fairness, and efficiency of pension systems.	**Progress in some countries.** Grenada and St. Vincent and the Grenadines have recently launched reform measures to improve the financial sustainability of their NIS. Pension reforms are under consideration for St. Kitts and Nevis.
6. Adopt common CBI program standards.	**Ongoing.** Member countries are implementing stricter due diligence. The implementation of minimum pricing in June 2024 has reduced race-to-the-bottom competition. The Interim Regulatory Commission has been formed to ensure that ECCU countries with CBI programs remain on track with their commitments. It has commenced work on legislation for establishing a regional regulator for CBI programs.
7. Develop regional capacity to increase access to climate finance.	**Ongoing.** ECCB established a Resilient Renewable Energy Infrastructure Investment Facility (RREIIF) with support by the World Bank, which has the potential for improving the access to and availability of finance for the green energy transition.
Strengthening Financial System Balance Sheets and Maintaining Regulation Reform Momentum	
8. Enforce prudent provisioning requirements to reduce elevated NPLs.	**Ongoing.** 60 percent of licensed financial institutions were compliant with the minimum provisioning level of 60 percent of NPLs as of Q3 2024. Efforts continue to monitor compliance with the 100 percent provisioning for the loss category (loans with one year or more in arrears). Extensions are being granted on a case-by-case basis.
9. Step up credit union oversight to match growing systemic risks.	**Ongoing.** ECCB is taking steps to introduce the Eastern Caribbean Financial Standards Board (ECFSB) to regulate non-bank financial institutions, including credit unions. Some national supervisors are moving toward adopting tighter provisioning standards for credit unions.
10. Strengthen monitoring of climate risks emanating through the general insurance sector.	**Ongoing.** The ECCB introduced prudential standards on climate related and environmental risks. The forthcoming ECFSB will regulate insurance.
11. Establish a regional standards setting body with end goal being a more centralized ECCU-wide oversight framework.	**Ongoing.** ECCB is taking steps to introduce the Eastern Caribbean Financial Standards Board (ECFSB) to regulate non-bank financial institutions, including credit unions. Consultation with member countries to establish the Office of Financial Conduct and Inclusion (OFCI) and the ECFSB commenced in February 2025 and will run through to June. The target operational date is Q4 2026.

[1] This annex provides a focused follow-up on past Article IV recommendations.

Recommendations from the 2024 Common Policies Discussion	Authorities' Actions
12. Coordinate financial sector reform to support private investment, credit, and local enterprise development.	**Ongoing.** The Credit Reporting Bill was enacted in all 8 ECCU members by mid-2024. The Credit Bureau is rolled out, with Antigua and Barbuda launched in September 2024 and remaining countries expected in 2025. The EC Asset Management Corporation achieved first sales in 2024. The EC Partial Credit Guarantee Corporation has been established to address the gap of funding for expansion of small businesses through the provision of guarantees at the financial institutions, including access to financing, mentorship and advisory services.
13. Strengthen supervisory resources	**Ongoing.** The establishment of OFCI and ECFSB is under consultation.
14. Continued strengthening of AML/CFT framework amidst the scrutiny of CBI programs.	**Ongoing.** Antigua and Barbuda issued update to AML/CFT guidelines in May 2024. The forthcoming ECFSB will cover AML/CFT.
Addressing Constraints to Employment	
15. Review and recalibrate employment protection frameworks.	**Limited progress.**
16. Recalibrate minimum-to-average wage ratio.	**Limited progress.** Most ECCU member countries use minimum wages as a way of adjusting wages, rather than allowing market forces to determine wage rates. Some member countries are updating their minimum wage legislation in response to inflationary pressures brought on by the pandemic and exacerbated by geo-political developments.
17. Close gender and youth gaps.	**Ongoing.** Some countries implemented a number of social safety net programs including national skills and employment programs. Work is ongoing in reforming school curricula to focus more on emerging skills and offer training programs in emerging technologies.
Statistical Issues	
18. Concerted region-wide efforts to strengthen data collection, processing, and transparency.	**Ongoing.**

Annex II. External Sector Assessment

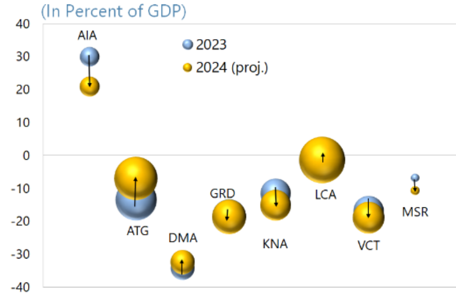
Overall Assessment. *Based on preliminary data and staff's projections, the ECCU's external position in 2024 is assessed to be weaker than the level implied by fundamentals and desirable policies. As the assessment is based on staff estimates of 2024 external accounts, it remains subject to a wide margin of error.*[1] *The external sector assessment is further hampered by data gaps concerning treatment of CBI flows and related investment (Annex IV).*

Potential Policy Responses. *Fiscal frameworks should be strengthened to help sustain fiscal consolidation efforts and safeguard debt sustainability in line with the regional debt target, while protecting space for growth- and resilience-supporting investment. External imbalances can also be reduced through continued structural reform efforts to support growth and competitiveness as well as reduce oil import dependence. Addressing gaps in institutional CBI reporting is critical to guard against external sustainability risks from uncertain future CBI inflows.*

Current Account

Background. Most ECCU countries' external positions have substantially recovered from the collapse in tourism exports during the Covid-19 pandemic (ECCU current account deficit peaked at over 19 percent of GDP in 2020). However, the downward trend in current account deficits has recently been disrupted by shocks in the form of Hurricane Beryl (Grenada and St. Vincent and the Grenadines) and weaker CBI inflows (St. Kitts and Nevis). The 2024 current account is estimated to have remained elevated at 10.4 percent of GDP for the ECCU on aggregate, and substantially wider in some individual member countries.[2]

Current Account Balance 2023-24
(In Percent of GDP)



Sources: Country authorities; and IMF staff estimates and projections.
Note: Bubble size indicates the size of country's nominal GDP.

Assessment. The 2024 current account deficit for the ECCU-6 countries (excluding Anguilla and Montserrat) is estimated at 11.6 percent of GDP. With narrow output gaps these economies' modest cyclical contributions broadly net out, but the transitory impacts from recent natural disasters (Grenada and St. Vincent and the Grenadines) and exceptionally large FDI (Antigua and Barbuda) give rise to temporary adjustments (1.0 percent of GDP). No adjustments are made to the current account norm. The results suggest an estimated negative current account gap of 2.2 percent of GDP. The joint relative policy gap contribution is 1.5 percent of GDP, even as the domestic policy component is -0.9 percent of GDP (reflecting mostly higher than desirable fiscal deficits in the region).

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[1] First release of ECCB 2024 external account estimates based on available administrative data become available at end-March 2025, with final release incorporating also data from surveys becoming available at end-2025. The EBA-lite model-based assessment excludes the UK overseas territories of Anguilla and Montserrat due to insufficient data.

[2] The latest BoP data release at end-2024 included material revisions to some members' historical current account positions.

EBA-lite Model Estimates for 2024 (Proj.)
(In percent of GDP)[1/]

	CA model	REER model
CA-Actual 1/	**-11.6**	
Cyclical contributions (from model) (-)	-0.2	
Additional temporary/statistical factors (-)	-1.0	
Natural disasters and conflicts (-)	0.2	
Adjusted CA	**-10.5**	
CA Norm (from model) 2/	**-8.4**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	-8.4	
CA Gap	**-2.2**	**1.5**
o/w Relative policy gap	1.5	
o/w Domestic policy gap	-0.9	
o/w Fiscal policy gap	-0.9	
Elasticity	-0.4	
REER Gap (in percent)	**6.5**	**-4.7**

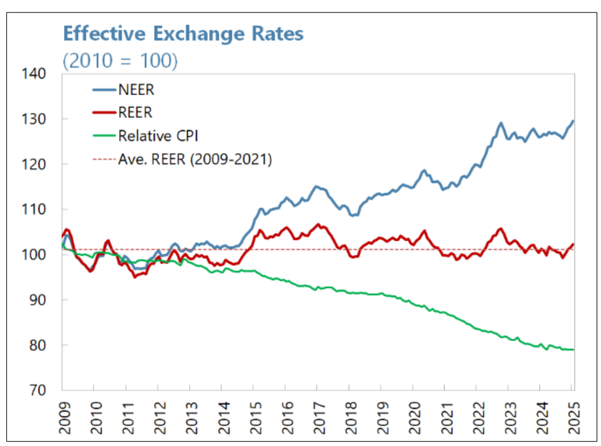
1/ The assessment is for ECCU-6 countries and the actual current account deficit may differ from the ECCU total.

2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The ECCU real effective exchange rate remains in line with its long-term average. The ECCU's nominal effective exchange rate index has appreciated since end-2021, reflecting the peg to the US$ under the quasi-currency board arrangement. At the same time, the relative price index has continued to fall due to stronger trading partner inflation.

Assessment. IMF's EBA-lite Real Effective Exchange Rate model suggests an undervaluation of nearly 5 percent. Some caution is needed to interpret the results of this model due to sizable current account deficits and the absence of the ECCB's intervention in the foreign exchange market (the bottom-line assessment draws more on the current account approach). Using the gap from the CA model as a reference and applying a staff-estimated semi-elasticity of 0.4 yields an overvaluation of 6½ percent.



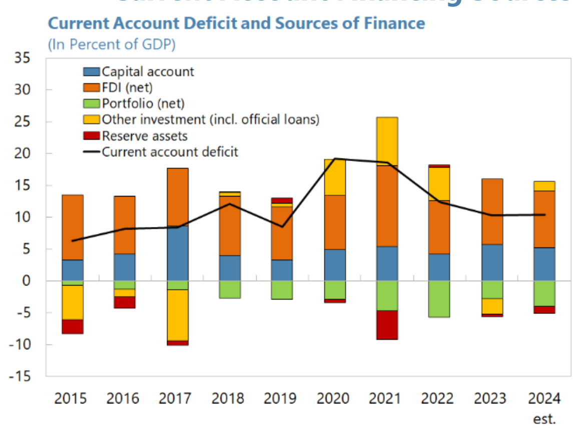
Capital and Financial Accounts and Net International Investment Position

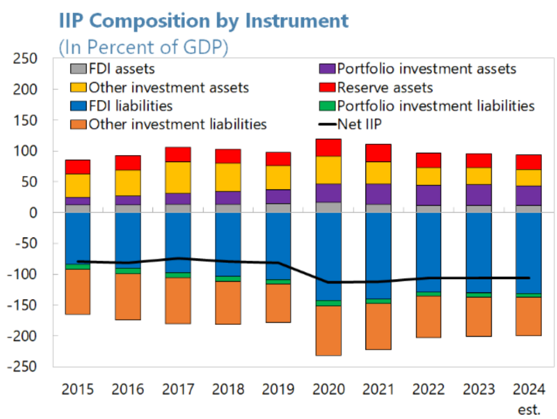
Background.

- *FDI inflows* have remained the primary source of financing for the current account deficits. This reflects in part the large scale of CBI direct investment inflows, although their exact contribution is unknown due to data limitations. The government revenues from CBI programs contribute to likewise material capital account financing. C*oncessional official financing* from international financial institutions and bilateral development partners has a more modest net-financing contribution outside stress periods, such as the 2020-21 Covid-19 pandemic. Due to limited international market access (in recent years ECCU sovereign commercial borrowing is predominantly from domestic and regional sources), the contribution of ECCU members' fiscal position has currently limited bearing on the currency union's external financing dynamics. Albeit more modest in scale, *net portfolio outflows* have increased in the past decade, reflecting investment of high banking system liquidity in oversea securities.

- The *net international investment position* (IIP) deteriorated over the pandemic, reflecting mostly a parallel surge in CBI inflows and higher FDI liabilities, and has recovered only modestly since. At end-2024, the net IIP is estimated at around -100 percent of GDP relative to pre-pandemic levels of around -80 percent of GDP.

Current Account Financing Sources and International Investment Position





Sources: ECCB; and IMF staff calculations.

Assessment. The financing needs for the ECCU current account deficits are projected to remain large in the near term. The elevated external risks from the region's susceptibility to natural disasters, tourism and commodity price shocks, as well as from the projected decline in CBI revenue, underscore the need to strengthen monitoring of the currency union's external sustainability and development of scenario-based policy responses (including estimation of financing needs and sources). Data collection and monitoring of direct investment flows associated with CBI programs needs to be enhanced given their highly uncertain nature. However, the CBI financing risks are in part mitigated by a consequent reduction in import-heavy physical investment. Drawdowns from the potentially sizeable unrecorded balances in real estate developer escrow accounts may also help smooth any immediate adjustment needs.

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[3] In addition to investments in government-owned national funds, CBI investors may also invest directly in pre-approved real estate projects (typically in the tourism sector). Supported by Fund technical assistance, the ECCB and national Central Statistics Offices (CSOs) are jointly working to improve recording of these potentially underreported investments. Progress has been delayed by staffing constraints and challenges to obtaining sufficient information from the real estate developers and investment promotion agencies.

FX Intervention and Reserves Level

Background. Supported by the tourism rebound, the ECCB international reserve position has remained broadly stable above its long-run average at around US$ 2 billion. At end-2024, this is projected to correspond to about 4.2 months of imports (above the benchmark of three months), 26.4 percent of broad money (above the benchmark of 20 percent), and 51.1 percent of total external debt. The ECCB has also maintained a high level of the reserve backing ratio (defined as the stock of the international reserves a percent of the ECCB's demand liabilities). The current level remains broadly in line with its long-term average.

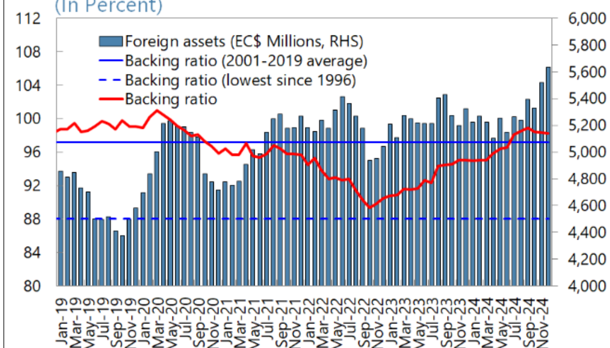
Reserve Adequacy Metric

	End-2024 (est.)	Benchmark
Billions of U.S. dollars	2.1	...
Percent of GDP	21.6	...
Percent of demand liabilities	98.2	...
Months of prospective year imports of goods and services	4.2	3.0
Percent of broad money	26.4	20.0
Percent of total external debt	51.1	...

Sources: ECCB; and IMF staff calculations.

Assessment. To ensure the credibility of the quasi-currency board arrangement, the ECCB has appropriately limited its provision of credit to the economy (including both fiscal authorities and banks), which has helped maintain a relatively high level of the backing ratio. Maintaining high reserve coverage of imports is also warranted given their commodity intensity in the ECCU. Risks to reserve adequacy from external debt are mitigated by its reliance on long-term official financing. Nonetheless, the uncertainty over future CBI inflows and their contribution to financing high current account deficits warrants close monitoring of the potential impact on the level of reserves.

Currency Board Backing Ratio 1/
(In Percent)



Sources: ECCB; and IMF staff calculations.
1/ Defined as foreign assets divided by demand liabilities.

Annex III. Risk Assessment Matrix[1]

Risks	Relative Likelihood	Impact	Policy Response
Conjunctural Risks			
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	**High**	**Medium**. **ST/MT**. Renewed inflationary pressures, lower real incomes, slower economic growth.	Strengthen the social safety net. Diversify tourism revenues. Accelerate energy transition. Increase the linkage between tourism and other sectors. Monitor financial risks closely, including risks to FDI, in coordination with the ECCB.
Regional conflicts. Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	**Medium**	**Medium**. **ST/MT**. Renewed inflationary pressures, lower real incomes, slower economic growth.	Strengthen the social safety net. Diversify tourism revenues. Accelerate energy transition. Increase the linkage between tourism and other sectors. Monitor financial risks closely, including risks to FDI, in coordination with the ECCB.
Commodity price volatility. Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	**Medium**	**High. ST/MT.** Renewed inflationary pressures, lower real incomes, dampening demand, and worsening fiscal and external imbalances.	Strengthen the social safety net to better support the vulnerable, allow pass-through of international prices to domestic prices and avoid broad-based measures to mitigate fiscal risks and cushion the economic impact. Accelerate transition to renewable energy.
Tighter financial conditions and systemic instability. Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	**Medium**	**Medium. ST/MT**. Increasing NPLs and reducing liquidity in the financial system. Potential market losses on overseas investments and disruptions to FDI inflows.	Intensify supervision of financial institutions and tighten regulations.
Structural Risks			
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	**High**	**Medium** **ST/MT**	Enhance international cooperation and competitiveness to support economic recovery and cross border collaboration.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity,	**Medium**	**High** **ST/MT** Reduced growth and worsened	Accelerate transition to renewable energy to improve resilience. Design fiscal frameworks that internalize exposure to natural disasters

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The RAM will be updated when the new G-RAM is issued.

Risks	Relative Likelihood	Impact	Policy Response
supply disruptions, lower growth, and financial instability.		fiscal and external positions, with disproportionate impact on the most vulnerable.	risk. Adopt national adaptation plans for investment in structural and financial resilience, build capacity to access climate finance. Strengthen data collection and monitoring of private insurance costs. Strengthen the social safety net to better support the vulnerable.
Domestic Risks			
Fiscal under-performance and lower CBI revenues. Lower-than-expected fiscal balances due to higher-than-expected spending and revenue underperformance, including a decline in CBI revenues due to increased pressure by the EU and the U.S. leaving them unattractive.	**Medium**	**High** **ST/MT** It would slow down fiscal consolidation and endanger fiscal sustainability.	Mobilize revenue from alternative sources and improve expenditure efficiency. Strengthen the fiscal framework to rebuild buffers. Strengthen governance frameworks to protect the integrity of the CBI program. Designate the ECCB as the AML/CFT supervisor for banks in remaining jurisdictions of Anguilla and St. Kitts and Nevis.
Delays in infrastructure investment. Private investment could be unprofitable without enough infrastructure investment.	**Medium**	**High** **ST/MT** Reduced tourism and fiscal revenues.	Improve PFM and contain growth of current expenditures. Strengthen fiscal frameworks while protecting space for growth-supporting investment.
Financial sector weakness. Commercial banks continue to report high NPLs, which impair credit intermediation.	**Medium**	**Medium** **ST** Hampered private credit growth and financial instability.	Monitor asset quality, ensure adequate loan loss provisioning and NPL resolution, and advance financial reform agenda.

Annex IV. Data Issues

Table 1. ECCU: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/

C

Questionnaire Results 2/

Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	C	B	C	B	B	C

Detailed Questionnaire Results

Data Quality Characteristics	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency
Coverage	B	C	B	B	C	
Granularity 3/	C		B	D	A	
			C		B	
Consistency			B	C		B
Frequency and Timeliness	C	B	C	C	B	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).

3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for Staff Assessment. Data have some shortcomings that somewhat hamper regional surveillance. Core data gaps concern national accounts, prices and external sector statistics.

National Accounts and Prices. GDP output data is generally available only at annual frequency (quarterly in one member), releases take place with substantial delay and historical data can be subject to material revisions. GDP expenditure data is not available. Staff assessment of recent economic activity and GDP projections typically rely on high-frequency indicators (importantly monthly tourism arrivals) and supplementary information (e.g., on construction projects). Monthly CPI data are available for most members with a modest lag, but ECCU wide CPI reflects quarterly frequency and more lagged data releases by overseas territories and several members struggle to maintain up-to-date CPI baskets and weights. The impact on regional surveillance is mitigated by the absence of independent monetary policy and heavy import dependence (inflation typically closely follows global prices).

Government Finance Statistics. The nationally collected Central Government fiscal accounts are generally adequate for surveillance and at country-level largely available at monthly frequency, although with periodic delays and revisions. There are however some challenges in expenditure classifications and gaps in granularity and timeliness of CBI revenue reporting that can somewhat hamper union-wide fiscal surveillance. Information on general government finances is patchy with limited systematic monitoring, and only one member country reports general government debt under a broad perimeter that includes non-guaranteed SOE debt and contingent liabilities from PPPs, the granularity of reported public debt information also varies by country, with shortcomings in a few members that hamper surveillance.

Table 1. ECCU: Data Adequacy Assessment for Surveillance (Concluded)

External Sector Statistics. Data are available only on an annual basis with a one-year delay (with interim estimates based on administrative information often subject to substantial revisions). Errors and omissions are periodically sizeable and lack of transparency over CBI flows in several members gives rise to potential inaccuracies hampering, in particular, reporting of their contribution to FDI under the financial account, which significantly hampers assessment of external sustainability risks. Other identified key challenges include gaps in representativeness in tourism surveys and consistent recording of imports.

Monetary and Financial Statistics. MFS and FSI data are broadly adequate for surveillance except for non-banking system, particularly the growing credit union sector, not being captured in monetary aggregates.

Changes since the last Article IV Consultation. Supported by ongoing CARTAC technical assistance, the BPM6-based balance of payments statistics has been extended back to 2000, but revisions to historical data have resulted in re-emergence of sizeable net errors and omissions. At the national level, various countries have made some progress addressing gaps in national accounts, prices and labor force surveys. Data gaps identified in the last 2024 ECCU regional consultation in key economic areas, such as the labor market, private sector balance sheets, and property markets, remain to be addressed.

Corrective Actions and Capacity Development Priorities. For regional surveillance core development areas concern addressing gaps in frequency, timeliness and data quality of national accounts and external sector statistics with ongoing CARTAC technical assistance support. A key aspect on the latter concerns enhancing region-wide transparency of CBI flows, which may be facilitated by the planned new CBI regulator. Other priority areas of improvement include development of expenditure-based GDP, maintaining more up-to-date CPI weights, expanding the perimeter of debt statistics to general government and implementation of regular union-wide labor force surveys to support more comprehensive monitoring of labor market conditions. Establishment of the ECFSB can support more consistent regional non-bank data collection and expanding MFS coverage. To support these efforts, the authorities are encouraged to address persistent staffing shortages and turnover at national statistics offices that also limit absorption capacity for technical assistance. This could give consideration to further regional centralization of data compilation and dissemination to better leverage synergies in the utilization and expertise of scarce staffing resources in both the national and regional entities.

Use of Data and/or Estimates Different from Official Statistics in the Article IV Consultation. Other sources of economic data in the ECCU region are scarce and staff does not use data or estimates different from official statistics.

Other Data Gaps. Only few member countries conduct regular Labor Force Surveys and census information is often outdated, challenging assessment of region wide labor market conditions. Information on capital stock is limited, hampering assessment of the economies' resilience to natural disasters. Databases on housing market valuations and household/firm balance sheets would facilitate monitoring of private sector financial conditions. Enhanced supervisory data on reinsurance would strengthen assessment of emerging risks in this sector.

Table 2. ECCU: Data Standards Initiatives

The six IMF members of the currency union participate in the Enhanced General Data Dissemination System (e-GDDS) but are yet to disseminate the data recommended under the e-GDDS.

Annex V. United Kingdom Overseas Territories—Anguilla and Montserrat[1]

Anguilla

1. Anguilla—a member of the ECCU and of the Organization of Eastern Caribbean States (OECS)—is a British Overseas Territory (BOT) and not a Fund member. Anguilla has a population of around 16,000, making it the union's second smallest member state by population. The economy is highly dependent on high-end tourism. Anguilla received budget support in the form of grants from the U.K. government during the pandemic but did not receive transfers in the past two years.

2. Anguilla has registered one of the strongest tourism recoveries among the ECCU as well as the union's highest GDP growth rate in 2024. From January through October 2024, the island welcomed a record 166,374 visitors, surpassing its pre-pandemic level (same months over 2019) by about 22 percent. The boost in tourism activity from new direct flights, as well as large infrastructure investments, fueled a real GDP increase of 5.2 percent in 2024, prolonging a strong post-pandemic rebound.

3. Revenues continue to be bolstered by the sales of .ai internet domain, while debt repayments are accelerating. Internet domains sales are estimated to have jumped a further 22 percent to reach EC$106 million in 2024, contributing to nearly a quarter of total revenue.[2] Tax revenues are estimated to have expanded by 9 percent to EC$300 million in 2024, supported by taxes on goods and services, while new legislation reduced property tax collections. Overall, the fiscal surplus is estimated to have remained large at 8.8 percent of GDP in 2024. Public debt is estimated to have declined to 26.8 percent of GDP in 2024, down from 31.5 percent of GDP in 2023, on the back of higher debt service payments following the expiration of the grace periods on two debt instruments associated with the 2016 banking resolution.[3]

4. The current account has dramatically swung from a large deficit to a substantial surplus since 2023. Revised balance of payments statistics reveal that Anguilla's current account underwent a remarkable swing, moving from a deficit of 48 percent of GDP in 2021, at the peak of the pandemic, to an unprecedented surplus of 30 percent of GDP in 2023, followed by an estimated 21 percent surplus in 2024. This turnaround can be primarily attributed to the resurgence of tourism and the influx of revenue from .ai domain sales, which have upended the longstanding pattern of large current account deficits seen over the past few decades. Additionally, ongoing initiatives aimed at enhancing self-sufficiency in agriculture and fisheries are expected to further bolster the current account surplus in the medium term.

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[1] Prepared by Yishun Cao, Chao He, Flavien Moreau, and Spencer Siegel.

[2] See An AI-Powered Boost to Anguilla's Revenues.

[3] The ASSB Promissory Note contracted in 2016 and one of the CDB loans contracted in 2018.

5. The financial sector remains stable but there are pockets of vulnerability. The capital adequacy ratio rose to around 16 percent, well above the regulatory benchmark of 8 percent. The non-performing loans (NPLs) to total gross loans ratio declined slightly to 13 percent in September 2024 from 17 percent in September 2023, reflecting strong economic performance and progress in disposing NPLs. However, the ratio of provisions to NPL fell short of the minimum of 60 percent mandated by the ECCB.

6. Medium-term economic prospects continue to depend on the growth of the tourism sector and the strength of ai-related revenues. The ongoing expansion and modernization of the international airport is set to increase the capacity to connect Anguilla to key global markets. By 2025, a new terminal building is scheduled to be operational. To effectively manage the windfall from the domain sales, the government is contemplating the establishment of a National Wealth Fund with the objective of smoothing the impact of the macroeconomic cycle and to also finance transformative infrastructure investments.

Montserrat

7. Montserrat—a member of the ECCU and the Organization of Eastern Caribbean States—is an overseas territory of the United Kingdom and not a Fund member. It has a total domestic population of around four thousand, in addition to a large diaspora displaced by the 1995 volcano eruption, mainly residing in the U.K. Montserrat's main economic activities include government services, construction, and tourism.

8. Real GDP growth is estimated to have accelerated to around 4.8 percent in 2024 after registering a solid 3.8 percent growth in 2023. The construction sector is receiving a boost from the Little Bay port development project, a new hospital, and a new parliament building, part of the construction of the new capital after the destruction of Plymouth by the 1995 eruption of the Soufriere. The installation of a new subsea fiber optic system was completed in July 2024, connecting Montserrat to Guadeloupe and Antigua.

9. The tourism recovery has been among the slowest in the region, but accounts for a smaller share of activity than in ECCU neighbors. Fuel supply issues and interruptions of the passenger ferry service during the first quarter of the year have prevented tourism from decisively growing past pre-pandemic levels. At the same time, Montserrat Port Authority increased marketing efforts to bolster yachting activity, targeting a 25 percent increase in arrivals next year, from around 400 annual yacht calls currently. Given the anticipated recoveries in both construction and tourism sectors, the current account balance is likely to have improved in 2024 and expected to continue to do so over the medium term.

10. Montserrat is expected to graduate from the OECD Official Development Assistance (ODA) list from 2026, which could introduce uncertainties of grant revenues in the medium to long term. The fiscal balance is estimated to have remained in surplus in 2024 after accounting for grant revenues amounting to as large as two thirds of total revenues, mainly from the U.K. While the U.K. government is unlikely to phase down budget support abruptly in 2026, Montserrat's medium-term fiscal prospects remain largely dependent on continued budget transfers by the U.K. government. Public debt—by far the lowest in the ECCU—is estimated at 3.3 percent of GDP in 2024 and is projected to remain low and stable in the medium term.

11. Montserrat's small financial sector remains broadly stable. The sector comprises one bank, one credit union, and a limited insurance sector. The NPLs to total gross loans ratio is low at 5.6 percent as of September 2024. Provisions have increased to 107 percent of NPLs by September 2024, remaining well above the ECCB's mandated 60 percent minimum.

12. Medium-term prospects depend on the investments in the island's energy resilience and economic diversification. Montserrat passed in April 2023 a Geothermal Resources Development Act to further the exploitation of the island's abundant geothermal resources. Co-developing geothermal power and brine mining could be potentially transformative for the volcanic island.[4] Infrastructure investment, particularly the Little Bay port, despite delays, is poised to alleviate a significant bottleneck in the tourism sector.

[4] See for example an FT report: The next critical mineral source could be volcanic soup.

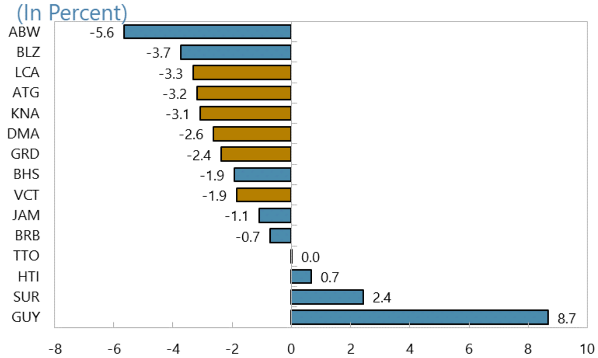
Annex VI. Potential Growth and Productivity: Trends and Prospects in the ECCU[1]

This annex examines the trends in potential growth and productivity in the ECCU countries. Based on aggregate data, potential growth in ECCU declined significantly in the last three decades, mostly due to subdued total factor productivity (TFP) growth and a lower contribution of human capital growth. The firm-level survey identifies access to finance, limited workforce skills, and tax, customs, and trade regulations as the top obstacles to resource allocation and firm-level productivity. Cross-Caribbean regression analysis finds that addressing these obstacles would be associated with higher productivity.

1. **In the last four decades, the ECCU-6 countries have faced declining growth trends, with post-2000 averages significantly lower than in previous years** (Figure 1). This protracted slowdown has stalled convergence in living standards with the United States (and advanced economies) since the 1990s, and a slight divergence has occurred in the most recent period between the Global Financial Crisis and the COVID-19 pandemic (Figure 2). In line with IMF (2024), weakening prospects at the global level are due to low productivity growth. This annex explores the trends and drivers of potential growth and productivity in the ECCU.

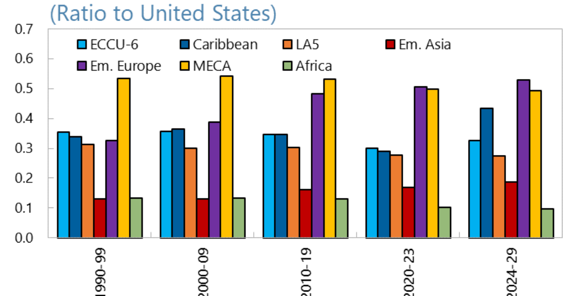
Figure 1. Growth and GDP Per Capita Convergence

Real GDP Growth, 2001-23 vs. 1980-2000 Averages
(In Percent)



Sources: IMF Worl Economic Outlook; and IMF staff calculations.

GDP Per Capita
(Ratio to United States)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Aggregates are PPP-weighted averages. LA5 = Latin America 5 (Brazil, Chile, Colombia, Mexico, Peru); EM Asia = emerging markets Asia (China excluded); EM Europe = emerging markets Europe; MECA = Middle East and Central Asia; SSA = Sub-Saharan Africa; ECCU-6 is Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St.Vincent and the Grenadines.

2. **Understanding trends in potential growth is essential for effective policymaking.** Two approaches are used to examine long-run growth trends in the ECCU. The first relies on medium-term five-year ahead forecasts from the IMF's World Economic Outlook (WEO), the most comprehensive regional medium-term growth forecast database. These forecasts, such as the 2029 forecast in the April 2024 WEO, reflect forecasters' expectations based on current information.

[1] Prepared by Alexander Amundsen, Sophia Chen, Pierre Guérin, Sinem Kilic Celik, Spencer Siegel and Diego Gutierrez (all WHD).

3. The IMF's medium-term growth forecasts for the ECCU have declined steadily since 2012. The forecasted real GDP growth, calculated using the purchasing power parity (PPP) weighted average, decreased from 4½ percent in the 2012 forecast to about 2 percent in the 2024 forecast.

Box 1. Methodology of Potential Growth Estimation

Production function is defined as: $Y_t = A_t\theta_t K_t^{\alpha} L_t^{1-\alpha}$, where Y is output, K is physical capital, L is labor input. θ_t measures inefficiencies in production during and immediately after NDs. In addition, physical capital stock is adjusted for NDs because post-disaster investment reflects reconstruction needs that are unrelated to potential growth. The followings steps are taken to adjust capital stock for NDs and estimate inefficiency and potential growth:

Step 1. Estimate investment excluding the impact of NDs ($\widetilde{I_t}$) using an ARIMA model: $I_t = \phi(L)I_t + A(L)\epsilon_t + \gamma_1 z_t + \gamma_2 z_{t+1}$, where z_t is a dummy variable for the year of an ND and the year after a disaster.

Step 2. Calculate capital stock excluding the impact of NDs ($\widetilde{K_t}$) using perpetual inventory method: $\widetilde{K}_{t+1} = (1-\delta)\widetilde{K}_t + \widetilde{I_t}$

Step 3. Estimate output excluding the impact of NDs ($\widetilde{Y_t}$) using an ARIMA model: $Y_t = \phi(L)Y_t + A(L)\epsilon_t + \gamma_1 z_t + \gamma_2 z_{t+1}$, where z_t is the dummy variable defined in step 1.

Step 4. Calculate $\theta_t = \frac{\widetilde{Y_t}}{Y_t}$ for the year of ND and the following year. Define θ_t as 1 for other years.

Step 5. Calculate actual TFP as $A_t = Y_t/\theta_t \widetilde{K}_t^{\alpha} L_t^{1-\alpha}$

Step 6. Estimate the trend TFP using a Hodrick–Prescott filter to obtain potential TFP A_t^{pot}

Step 7. Calculate potential output as $Y_t = A_t^{Pot}\theta_t \widetilde{K}_t^{\alpha} L_t^{1-\alpha}$

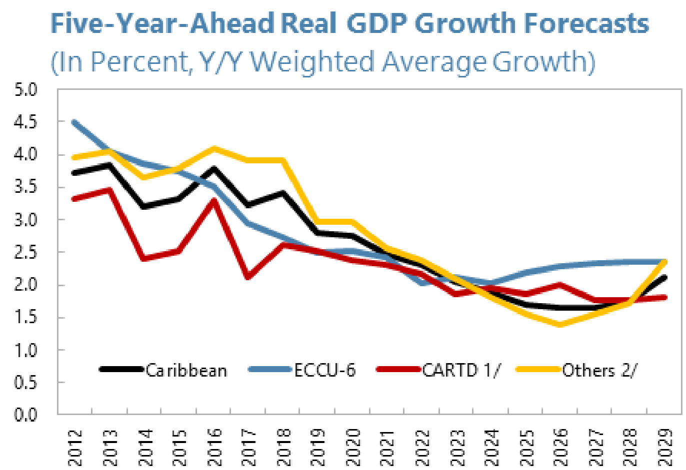
Labor is measured as human capital augmented population $L_t = h_t P_t$, where h_t is human capital and P_t is population. Human capital is calculated using average schooling years: $h_t = \exp\left(\frac{\vartheta}{1-\omega} s_t^{1-\omega}\right)$, where s_t is years of schooling of the population aged 24 or older. The values of the parameters ($\vartheta = 0.32$ and $\omega = 0.58$) are set following the literature (Guerson et al. 2017, Bils and Klenow 2000; Sosa et al. 2013). Average schooling years are estimated using skill-specific emigration rates from IAB (Institut für Arbeitsmarkt- und Berufsforschung) database, and secondary enrollment rates from World Bank's World Development Indicators (WDI) database.

4. The second approach estimates potential output growth, defined as the economy's maximum non-inflationary growth, using a standard growth accounting method. This method complements the forecasting approach by decomposing growth into contributions from TFP, physical capital, human capital, and labor. This allows for a detailed analysis of the drivers of growth.

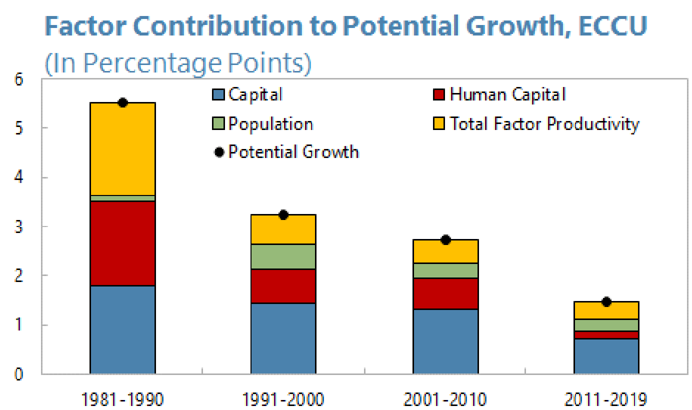
5. Estimating potential growth in the ECCU requires considering the impact of natural disasters (NDs). This incorporates distortions caused by production disruptions during and after disasters. The physical capital stock from Penn World Tables (PWT 10.1) is adjusted to exclude post-disaster reconstruction investments, which are unrelated to underlying growth potential (see Box 1 for details on the methodology). This adjustment is particularly important for the ECCU, a region frequently impacted by severe NDs.

6. Labor is calculated as the human capital augmented population. Human capital is estimated using the average schooling years following the literature (Guerson et al. 2017, Bils and Klenow 2000; Sosa et al. 2013). Average schooling years are estimated using skill-specific emigration rates from IAB (Institut für Arbeitsmarkt-und Berufsforschung) database, and secondary enrollment rates from World Bank's World Development Indicators (WDI) database.

Figure 2. Medium-Term Growth Forecasts and Potential Growth in ECCU



Sources: IMF World Economic Outlook, and IMF staff calculations.
Note: The years on the horizontal axis refer to the year for which a forecast is made, using the April WEO from five years earlier (e.g., the 2029 forecast is based on the April 2024 WEO). Data available for Aruba starting WEO April 2019. Guyana's forecasts are excluded from 2023 onwards due to its recent unparalleled expansion in the oil and gas sector.
1/ Comprised by Antigua and Barbuda, Aruba (starting WEO April 2019), Bahamas, Barbados, Belize, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.
2/ comprised by Haiti, Suriname, Guyana, and Trinidad and Tobago.



Sources: Barro and Lee (2015); EM-DAT database; IADB database, Penn World Table (10.1 version); World Bank; and IMF staff calculations.
Note: Simple average of six ECCU countries: ATG, DMA, GRD, KNA, LVA, and VCT.

7. The estimates reveal a significant decline in the ECCU's potential growth over the past three decades. The estimated growth declined from around 5.5 percent in the 1980s to around 1.5 percent in the decade before the pandemic.[2] This decline is primarily driven by lower contributions from TFP and human capital growth, each accounting for nearly two-fifths of the total drop in growth, as well as a drop in physical capital, contributing a quarter. Population growth was the single component that did not decline in its contribution. The firm-level analysis below examines the possible reasons for the decline in the contributions of productivity and human capital.

8. Firm-level survey data provides microeconomic evidence on the drivers of TFP and human capital. The Innovation, Firm Performance, and Gender (IFPG) survey, commissioned by the Inter-American Development Bank, which covers 1,979 firms across 13 Caribbean countries, were used in the firm-level analysis.[3] For the ECCU-6, this includes 826 firms (12 percent of the firm population), spanning broadly both manufacturing and services sectors. The dataset offers comprehensive firm-level data, including information on firm balance sheets, income statements, and performance metrics.[4]

9. The declining contribution of TFP to potential growth can reflect resource misallocation. To quantify this misallocation, following the Hsieh and Klenow (2009) framework, the dispersion in the marginal revenue products of capital and labor is measured.[5] The estimates show varying degrees of misallocation among ECCU-6 countries. If resources were efficiently reallocated across firms, the increase in aggregate TFP in 2019 would range from 34 percent in Grenada to 65 percent in St. Lucia (Figure 3, Panel 1).[6] This would imply a substantial improvement in living standards and could reduce the GDP per capita gap with the United States (advanced economies) by 9 to 27 (10-30) percentage points (Figure 3, Panel 2).[7]

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[2] The data for capital stock are not available in the PWT 10.1 database after 2019.

[3] The dataset is available at: Compete Caribbean - IFPG.

[4] The analysis is based on firm-level TFP estimated by the factor share approach. This approach equates the input's cost share to its respective output elasticity under the assumption of cost-minimization by firms, perfect competition, and constant returns to scale. In the TFP estimates, firms are dropped if they have missing values and if they make up the top and bottom 2 percent of productivity in order to deal with outliers. In the survey, the sectors are broadly defined as manufacturing and services, and while conducted in 2020, the variables used in the analysis largely refer to the fiscal year 2019, before the COVID-19 pandemic.

[5] The Hsieh and Klenow (2009) framework assumes a Cobb-Douglas production function, monopolistic competition in output markets, and perfect competition in input markets. Under this scenario, dispersion in the marginal revenue products of inputs, capital and labor, is reflective of misallocation and firm-specific distortions. This is because by reallocating inputs from firms with lower marginal revenue products to those with higher marginal revenue products, aggregate output will increase for the same level of aggregate inputs. Under the framework, it is possible to calculate the ratio between the aggregate output level without misallocation relative to the baseline. This ratio represents the aggregate TFP gain that could be achieved if resources were efficiently reallocated across firms.

[6] These results are in line with the literature. Hsieh and Klenow (2009) estimate gains of up to 115 percent in China and 128 percent in India, while Busso et al. (2013) find gains between 41 and 122 percent in Latin American countries for the manufacturing sector.

[7] This calculation assumes that the gains to labor productivity are the same as the gains to TFP, and that labor participation does not change.

10. Firm-level misallocation suggests the presence of obstacles that prevent firms from operating efficiently. Out of 18 potential obstacles provided in the survey, the top three obstacles reported by firms are: access to finance (37 percent), inadequately educated workforce (27 percent), and customs and trade regulations (27 percent) (Figure 3, Panel 3). On access to finance, evidence from the survey shows that credit instruments are underutilized among ECCU firms. For each lending instrument, only a minority of firms utilize it, with short-term financing being the most common and equity financing being the least (Figure 3, Panel 4). The underutilization of credit is accompanied by relatively high interest rates. The average interest rates for ECCU-6 firms on a line of credit, overdraft facility, credit card, and medium/long-term loans are equal to 10 percent, 11 percent, 20 percent, and 13 percent, respectively. These values are high by international standards, where the global median interest rate was 4 percent for small-and medium-sized enterprises in 2018 (OECD, 2020) (see Annex VII) for further discussion on credit).

11. Cross-Caribbean regression analysis points to obstacles associated with lower firm productivity. In addition to creating misallocation, obstacles can affect the level of firm productivity by impacting the business environment. Results from regressing the level of firm TFP on dummy variables indicating when firms face 'Major' or 'Very severe' obstacles,[8] and including firm controls and industry/country fixed effects, show that improvements to the business environment can improve firm-level outcomes (Figure 3, Panel 5). Removing obstacles related to the cost of finance and tax administration could significantly improve firm-level TFP by over 10 percentage points, while removing obstacles related to business licensing and permits and an inadequately educated workforce could significantly improve firm-level TFP by over 5 percentage points. Among small firms and young firms (those less than 20 employees and 20 years old), access to finance is also a significant obstacle, with its removal improving firm-level TFP by between 8 to 12 percentage points. These results highlight that there is scope to raise firm performance from structural reforms by improving the business environment.

12. Declining contributions of human capital to potential growth may reflect skills shortages. The survey shows that an inadequately educated workforce is the second most severe obstacle for firms. This aligns with earlier findings of a persistent skills gap, particularly in technical professions (e.g., engineers) including those to support a transition to renewable energy, but also in traditional vocations (e.g., plumbers, electricians, carpenters, etc.) where minimum technical certification standards fall short of meeting in-demand skills. Firms attribute labor skills shortages to the quality and range of professions trained locally (Figure 3, Panel 6). Factors like labor regulations, emigration, and inter-sectoral movement are considered less important factors. This highlights the need to invest in local educational institutions to maintain high quality services and provide the labor skills demanded by firms, enabling firms to operate efficiently and grow.

13. The findings reveal that low productivity growth and insufficient human capital impede potential growth in the region. Policy action is needed to foster resource reallocation and

[8] The obstacles are included as dummy variables equal to one if firms report that they are 'Major' or 'Very severe', and equal to zero if firms report that they are 'No', 'Minor', or 'Moderate'.

address key obstacles identified by firms, such as access to finance, workforce education, and regulatory burdens. Implementing these measures could significantly boost potential growth. Prioritization should be given to low hanging fruits, which might be different for each country's circumstances, like removing the regulatory burdens as countries move on to their digitalization agenda, while improvement in education and human capital can be regarded as a medium and long-term target.

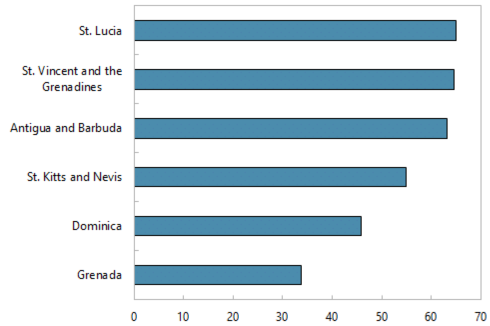
14. Recent initiatives in the broader Caribbean region on education, training, and digitalization show promise. Initiatives aimed at modernizing education and vocational training, coupled with efforts to enhance government services through digital infrastructure, are encouraging. Jamaica's national STEAM—Science, Technology, Engineering, Arts and Mathematics—initiative, supported by the World Bank, exemplifies a framework designed to develop STEAM competencies for secondary school students through improved learning environments, resources, and instruction in STEAM subjects. Barbados' Economic Recovery and Transformation 2022 plan features a growth strategy aiming at enhancing the business environment through advancing digitalization efforts and investing in skills training and education. Further, St. Vincent and the Grenadines is implementing education reform, focusing on curriculum modernization and expansion of post-secondary technical and vocational education, to reduce labor market skill mismatches. Antigua and Barbuda has planned an expansion of the University of the West Indies Five Islands Campus, which will provide new educational opportunities. Grenada's digital tools connecting employers with potential employees could be scaled up to further bridge the skills gap. Such a centralized platform, where job seekers find opportunities tailored to their qualifications, could enhance job placement and reduce unemployment.

15. Simplifying regulatory processes, particularly for SMEs and startups, is crucial. Efforts should focus on streamlining business registration and tax administration processes. Enhancing digital access for taxpayers can reduce the administrative burden on businesses, improve compliance, and create a more favorable environment for entrepreneurship. Dominica's ongoing initiative to digitalize government services provides a potential example of how to reduce costly bureaucratic hurdles, especially if these online services are designated to simplify business registration and tax administration.

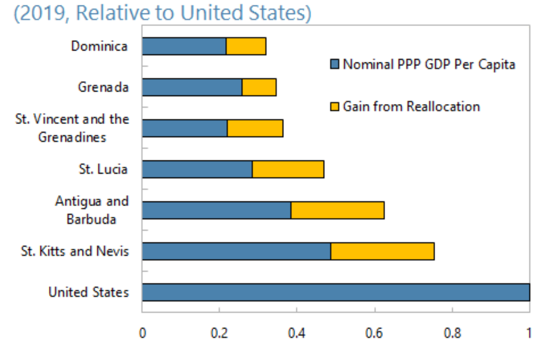
16. The financial system plays a critical role in supporting productive activities. High non-performing loans (NPLs) currently stifle credit availability and increase financing costs, particularly for SMEs. Strengthening financial sector oversight and reducing NPLs can improve credit provision and support sustainable growth (see Annex VII). Additionally, a centralized credit registry could lower financial costs by enhancing information sharing among financial institutions and improve risk management. This would lead to more favorable lending terms. Jamaica's plan to establish a central digital depository for know your customer (KYC) information is an example of efforts to strengthen efficiency and competition in the banking sector.

Figure 3. Results for ECCU-6 Firms

Aggregate TFP Gain from Reallocation
(In Percent)



GDP Per Capita Convergence through Reallocation
(2019, Relative to United States)

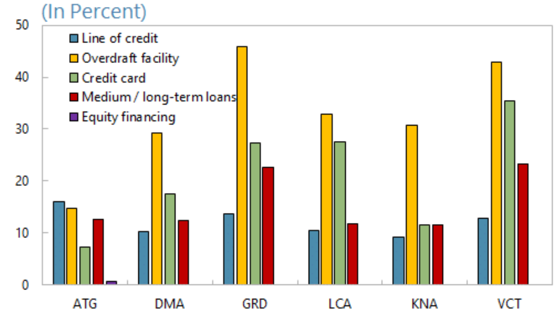


Firms report various obstacles that affect their current operations.

Top Three Obstacles for Firms
(Percent of Firms with Identified Obstacles)

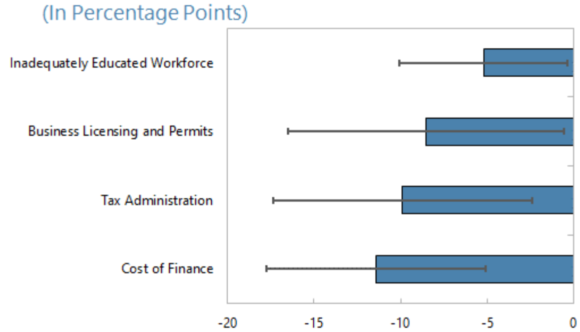
Short-term credit instruments are used more frequently than medium- and long-term loans.

Credit Instruments on Hand
(In Percent)



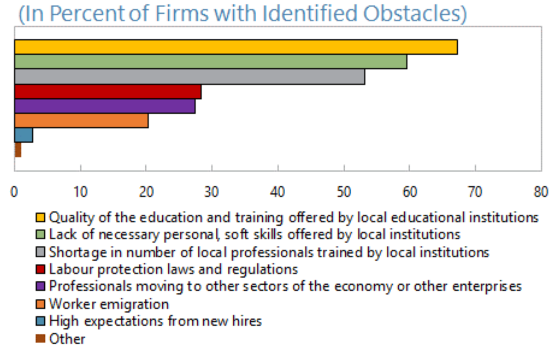
Obstacles facing firms are associated with lower firm performance.

Obstacles Associated with Lower Firm-Level TFP
(In Percentage Points)



Local institutions play an important role in facilitating labor skills shortages.

Causes of Labor Shortages
(In Percent of Firms with Identified Obstacles)



Sources: IMF World Economic Outlook; Innovation, Firm Performance and Gender (IFPG) survey; and IMF staff calculations.
Note: Values for the top three obstacles reflect the percent of firms who answered 'Very severe' to each obstacle.
Note: Values for the causes of labor shortages reflect the percent of firms who answered 'Very important' or 'Critical' to each factor.

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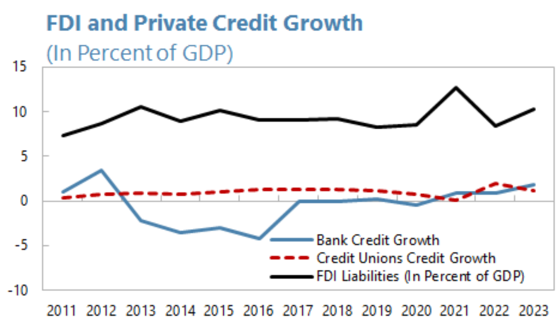
Annex VII. ECCU Bank Credit Growth: Diagnosis and Policy Solutions[1]

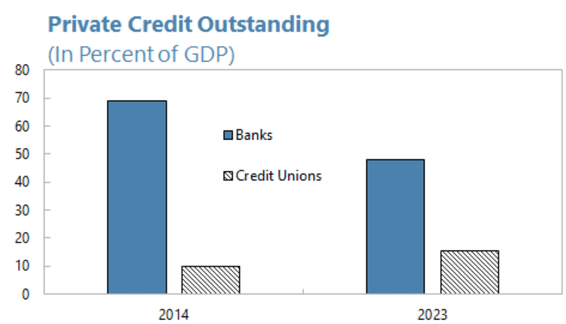
Subdued private sector credit growth has long been identified among the key constraints to local investment and the ECCU's growth potential. This annex presents a comprehensive diagnosis of the regional credit impediments and proposes a policy road map to foster a more conducive environment for future credit growth. This comprises three key pillars of (i) ensuring financial system soundness; (ii) reducing institutional credit market frictions; and (iii) strengthening private sector bankability.

A. Context: Local Bank Credit in the ECCU

1. Bank credit is the core funding source for private investment in the ECCU. While larger tourism development projects rely largely on international companies and FDI, local ECCU firms have no international market access nor benefit from well-developed local capital markets.[2] The ECCU credit union sector has grown rapidly in recent years, but their lending is largely household-based and modest in scale relative to the banking system.



Sources: ECCB; CCCU; and IMF staff calculations.



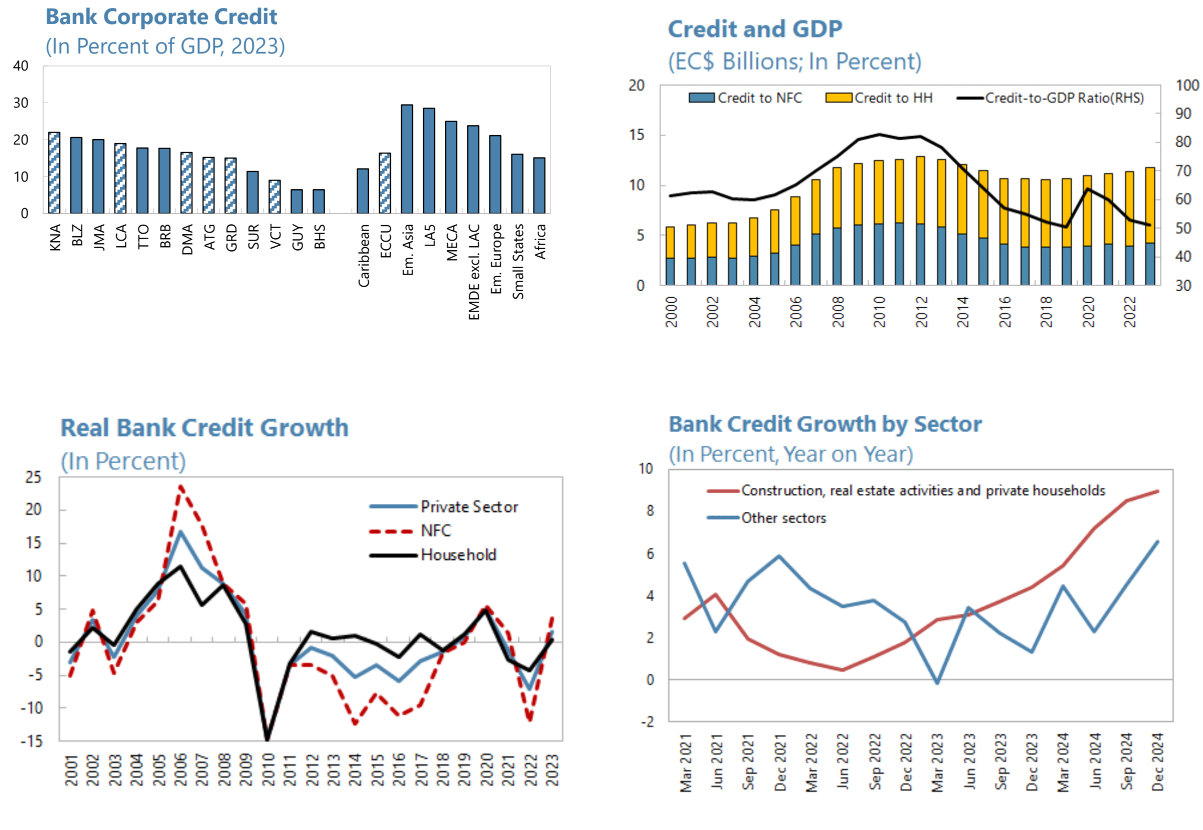
Sources: ECCB; CCCU; and IMF staff calculations.

2. Long subdued bank credit growth has been a drag on local investment. While the ECCU total private credit stock relative to GDP remains broadly comparable to regional peers, it has seen a decade-long downward trend and the level of corporate credit lags more advanced financial systems. The estimated private credit-to-GDP gaps in this period were substantial and, following the post-pandemic GDP rebound, remained negative at end-2023. Credit growth has also mostly been driven by households and, in the more recent period, real estate activities. Since 2000, credit to non-financial businesses (NFCs) has only grown at an annual average rate of about ½ percent in real terms.

[1] Prepared by Sergei Antoshin, Janne Hukka, Junghwan Mok, and Spencer Siegel (all WHD).

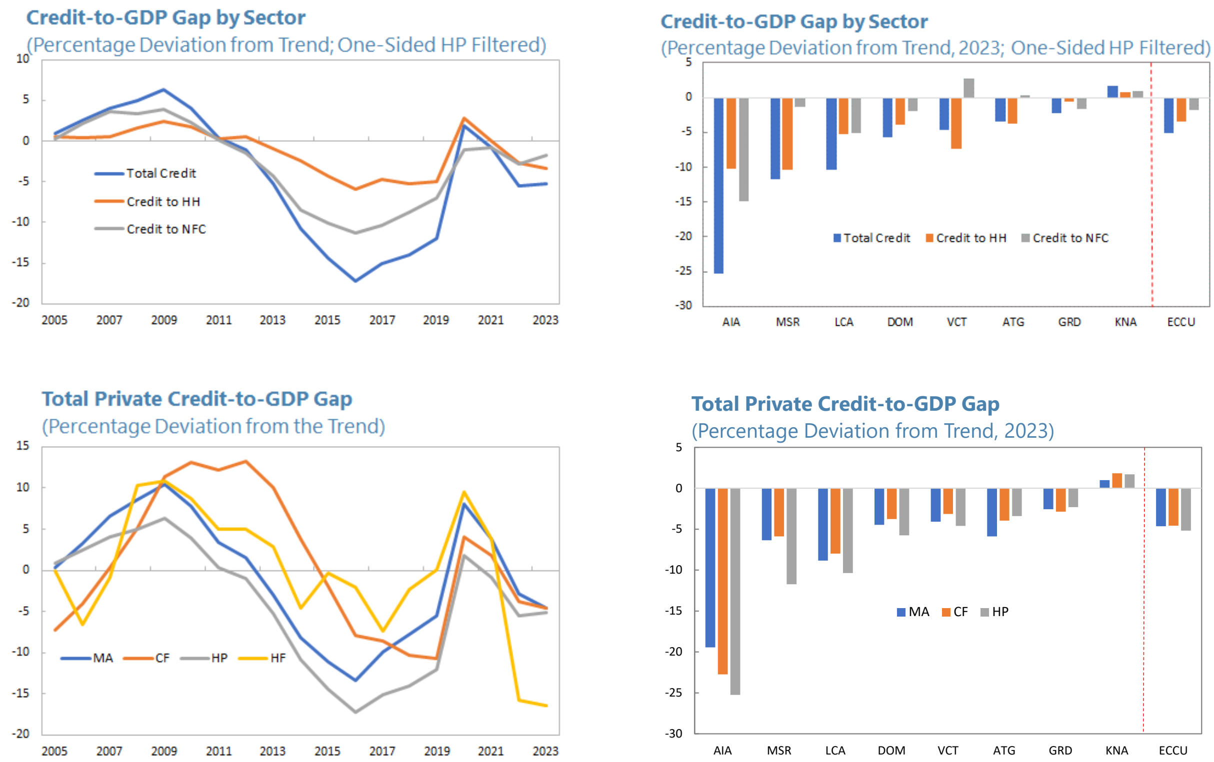
[2] Issuances and trading at the Eastern Caribbean Securities Exchange (ECSE) are very limited.

Figure 1. Bank Credit Developments



Sources: ECCB; and IMF staff calculations.

Figure 2. Estimated ECCU Credit-to-GDP Gaps



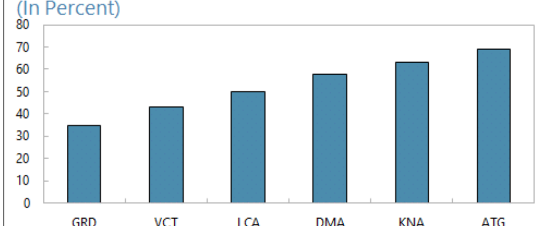
Sources: ECCB and IMF staff estimates.

Note: MA = 5-year Moving Average Gap, CF = Christiano-Fitzgerald Filter, HP = Hodrick-Prescott Filter, HF = Hamilton Filter

B. Diagnosis: Why Has Bank Credit Growth Been Low?

3. Weak ECCU credit growth has multiple cross-reinforcing underpinnings. Banks have undergone a prolonged period of slow balance sheet repair and structural impediments constrain lending opportunities. Regional surveys highlight considerable firm credit access and cost constraints and high prevalence of informal financing.[3]

Firms Without Credit and Facing Obstacles to Access to Finance
(In Percent)

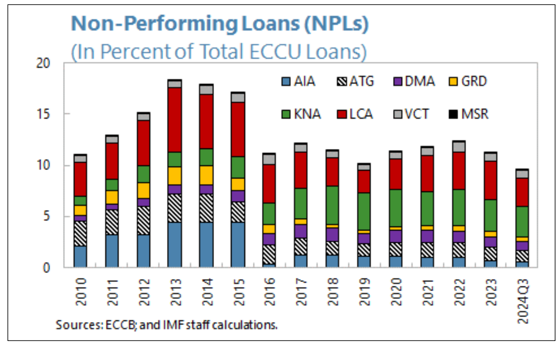


Sources: Innovation, Firm Performance, and Gender (IFPG) survey; and IMF staff calculations.
Note: Share of firms that report access to finance as a "Major" or "Very severe" obstacle and that do not have any credit instrument.

[3] In ECCB (2023), "The ECCU's Financial Literacy and Financial Inclusion – Report on Survey Results 2022/23, Volume 1" nearly a quarter of respondents reported financing from family and friends despite 86 percent holding an account in a financial institution.

Supply-side Factors

- ***Bank balance sheet weaknesses.*** Some ECCU banks' long-elevated NPLs weigh on their capital and capacity to lend, notwithstanding gradual improvement supported by the recent stricter provisioning requirements.[4] Staff estimate that each percentage point increase in bank NPL ratios slows real credit growth by approximately ¼ percentage point, with a more pronounced impact for smaller banks with less diverse asset portfolios to help offset the NPL losses (Box 1).[5]



Box 1. Estimated Impact of Bank NPLs on Credit Growth

The analysis employs a dynamic panel regression with quarterly bank-country level data from 30 ECCU banks from 2010Q3 to 2024Q2, adjusted for mergers and acquisitions over the sample period:

$$Y_{i,c,t} = \alpha + \beta \cdot NPL_{i,c,t-1} + \Gamma \cdot X_{i,c,t-1} + \delta_{c,t} + \epsilon_{i,c,t}$$

where $Y_{i,c,t}$ is the year-on-year real credit growth rate of bank i in country c, and $NPL_{i,c,t-1}$ is the lagged non-performing loan (NPL) ratio. The bank-specific control variables, $X_{i,c,t-1}$, include the lagged Tier 1 capital ratio, total assets (proxying bank size), the net interest margin (NIM, proxying bank profitability), real deposit growth rate (proxying bank liquidity), and the provision coverage ratio (PCR). The country-time fixed effects, $\delta_{c,t}$, controls the time-varying macro and policy environment in each country. Lags mitigate potential endogeneity concerns between the dependent and the control variables.

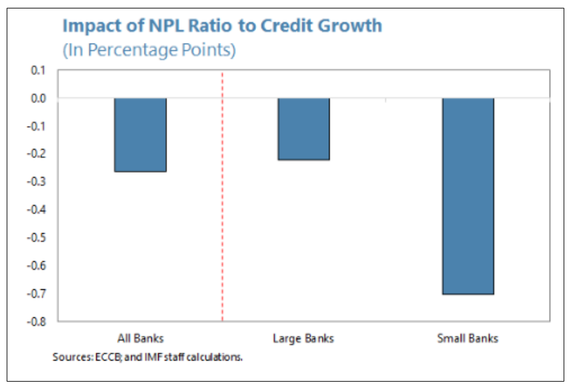


Table 1 results under different specifications indicates a consistent statistically significant negative impact of the NPL ratio on credit growth. A percentage point increase in the lagged NPL ratio decreases the real credit growth rate by 0.26-0.32 percentage points (columns 1-4), with an interaction term suggesting a more adverse effect on smaller banks (column 5). Use of alternative control variables, including use of return on assets instead of NIM as proxy for profitability and loan-to-deposit ratios as proxy for liquidity, produce consistent results (impact ranging from 0.21 to 0.29).

[4] The ECCB has granted time-bound extensions to a few banks not yet meeting the standard. The ECCU banks have consistently met minimum regulatory capital requirements over the examination period (see staff report panel Figure 3).

[5] The finding is broadly consistent with other international studies, see for instance Antoshin et. al. (2017), "Credit Growth and Economic Recovery in Europe After the Global Financial Crisis".

Box 1. Estimated Impact of Bank NPLs on Credit Growth (Concluded)

Box 1. Table 1. Regression Results

	(1)	(2)	(3)	(4)	(5)
NPL Ratio (-1)	-0.312***	-0.322***	-0.257***	-0.264***	-0.220**
	(0.097)	(0.100)	(0.089)	(0.092)	(0.096)
Capital Ratio (-1)	-0.122*	-0.111*	-0.105*	-0.108*	-0.116*
	(0.061)	(0.060)	(0.058)	(0.057)	(0.062)
Size (-1)	1.646	1.527	1.050	1.083	-0.928
	(1.544)	(1.575)	(1.431)	(1.405)	(2.576)
NIM (-1)		-0.270	-0.185	-0.114	-0.029
		(0.436)	(0.415)	(0.402)	(0.371)
Deposit Growth (-1)			0.180**	0.188**	0.174**
			(0.069)	(0.069)	(0.072)
PCR (-1)				-0.008	-0.008
				(0.010)	(0.010)
NPL Ratio (-1) x Small					-0.482
					(0.434)
Observations	708	705	673	669	669
R-squared	0.469	0.469	0.494	0.500	0.521
Country-Time FE	YES	YES	YES	YES	YES
# of banks	29	29	29	29	29

Note: Standard errors are clustered at the bank-country level and provided in parentheses. Significance levels: 10 percent indicated by *, 5 percent indicated by **, 1 percent indicated by ***. Small banks are defined as those with total assets less than the 25th percentile.

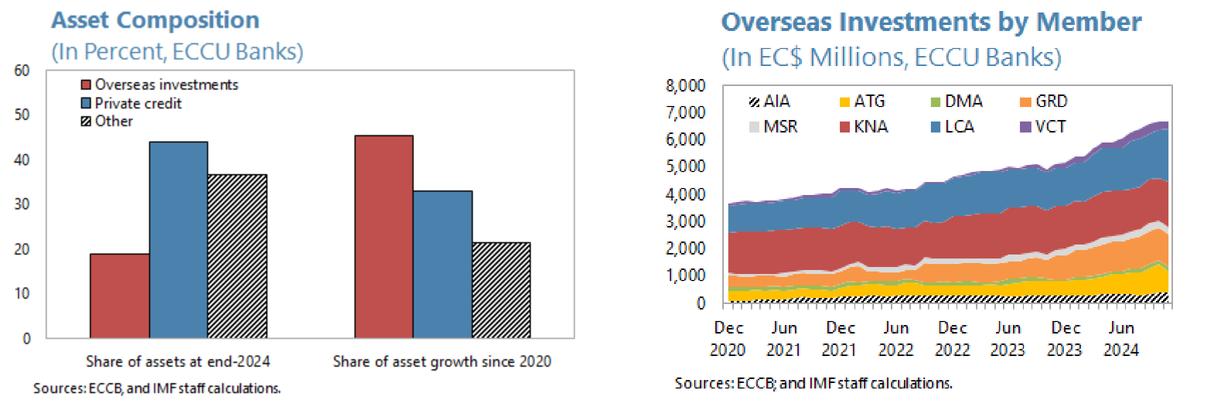
Sources: ECCB and IMF staff estimates.

- ***Frictions in credit market infrastructure.*** Absence of credit registries limit banks' risk-tolerance, impair non-collateralized lending, and add to operational costs from lengthy manual credit assessments. The ongoing implementation of the regional credit bureau will over time alleviate these frictions as the registry and client track are built up. Other challenges include inefficient and costly NPL resolution and disposal processes, which raise credit qualification requirements and costs. These include outdated insolvency frameworks hampering efficient out-of-court settlements and costly rigidities in foreclosure and collateral sale processes in some ECCU members. Persistent funding constraints of the Eastern Caribbean Asset Management Company (ECAMC) also hamper NPL sales and value recovery in absence of an effective market for NPL sales, reflecting in part valuation uncertainties from limited liquidity in the ECCU property markets and absence of market-based pricing benchmarks.[6]

- ***Evolving bank business models.*** The ECCU banks are increasingly diversifying their asset composition to overseas (non-CARICOM) securities, representing nearly half of aggregate asset growth since 2020. This evolution stems from persistently high system liquidity and local lending constraints but recently also from more attractive foreign risk-return opportunities following normalization of global interest rates.

[6] To mitigate collateral valuation uncertainties, the ECCB has issued standards to strengthen and harmonize real estate appraisals.

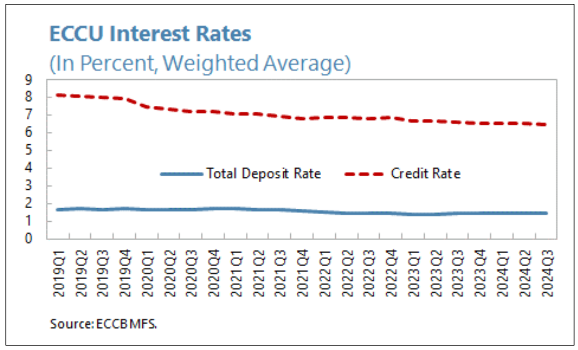
Figure 5. Commercial Banks' Overseas Investments



Demand-side Factors

- ***Collateral constraints.*** While data limitations hamper quantification of collateral gaps, they have long been identified as an important, albeit not likely decisive, credit access constraint. Uptake of partial credit guarantees by the Eastern Caribbean Partial Credit Guarantee Corporation (ECPCGC) has been limited, albeit growing with recent more demand-tailored products.[7] The ECCB is also working with IFC on legal groundwork to establish a regional collateral registry that can help diversify the range of acceptable loan collateral.[8] The regional credit registry can also, upon maturing, support non-collateralized lending.

- ***Affordability constraints.*** A downward trend in ECCU average lending rates suggests a competitive lending market, but a wedge on banks' cost-of-funding from the ECCB's 2 percent minimum savings deposit rate (MSR) contributes to overall credit costs.[9] The average lending rate's remarkable stability over recent shocks, including the Covid-19 pandemic, also



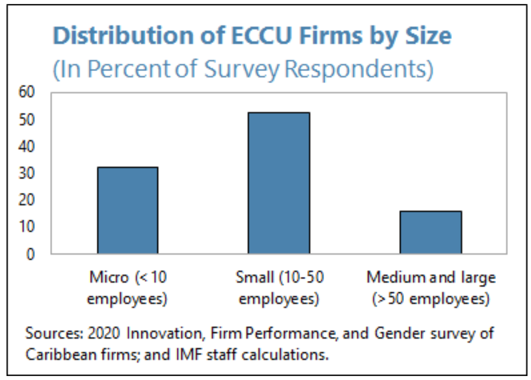
[7] Since its launch in late-2020, the ECPCGC had approved 147 guarantees for loan value of EC$18 million.

[8] As a national pilot program, St. Lucia is implementing a collateral registry for moveable assets.

[9] Experience suggests the MSR alone is not a decisive factor in banks' credit behavior. It was last reduced in 2025 from 3 to 2 percent, which had muted impact on credit growth and only partial pass-through to lending rates, potentially reflecting limited new lending and banks' balance sheet repair needs. Bank fees on savings accounts also reduce the effective MSR. The MSR's primary policy objective is to support returns to ECCU savers given shortage of alternative investment assets. See the 2017 staff report for ECCU Regional Consultations.

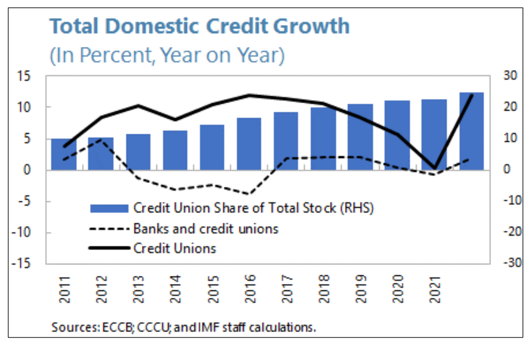
points to its relative risk insensitivity albeit masking likely high variance in borrower- or product-specific credit decisions.[10]

- ***Non-collateral loan requirements.*** These reflect in part capacity limitations of small and micro enterprises that form the predominant share of ECCU companies, including in record keeping. This can be exacerbated by the high degree of informality in the ECCU economies in context of tightening bank origin-of-funds requirements in tandem with international standards.



- ***Competing non-bank alternatives.*** Rapid expansion of credit union lending has been fueled by less stringent requirements and higher risk tolerance embedded in membership-based lending.[11] In some ECCU members, non-deposit public institutions, including national development banks, have also engaged in material local lending.

- ***Structural impediments to business development.*** Limited economies of scale, import-dependency, and high transport costs constrain economic diversification, cost-efficiency, and market size. These structural challenges for business growth raise the expected risk-adjusted returns for lenders. Sectors like agriculture may also be credit-starved due to inherent vulnerability to natural disasters.[12] Limits to ECCU banks' balance sheet depth also limit participation in large-scale tourism projects, while cross-island lending among the local banks is modest.



C. Policy Roadmap to Support Future Credit Growth

4. The assessment highlights a need for a multi-pillared approach to addressing structural challenges in ECCU financial intermediation. While bank balance sheet weaknesses contribute negatively to credit growth, growth in overseas exposures suggests continued capacity to invest. The declining average lending rates and the recent uptick in household and real estate lending also suggests local credit appetite where opportunities emerge. At the same time,

[10] ECCB reports average lending rates only for the aggregate credit portfolio. The range of residential and commercial mortgage rates is wide (2-14 and 4.15-16.50 percent respectively at end-2024). ECCU firm surveys point to internationally high average medium/long-term loan rates of 13 percent (see Annex VI).

[11] While credit union regulatory standards vary by jurisdiction, these are often less stringent than banks. See Annex VII in the 2024 Staff Report for ECCU Regional Consultations.

[12] See chapter 6 in IMF (2024): "Climate Change Challenges and Opportunities in Latin America and the Caribbean".

prominent credit access obstacles in firm level surveys and rapid credit union expansion point to underserved market segments and potential to foster more robust private sector development. Accordingly, a roadmap for more robust and sustainable future credit growth includes:

- ***Ensuring financial system soundness.*** This involves measures to complete banks' ongoing balance sheet repair and leveling the regulatory and supervisory playing field with the credit union sector (see staff appraisal).

- ***Reducing institutional credit market frictions.*** While most such reforms are in the purview of national authorities, they could be harmonized and coordinated at the regional level:

  - *Efficient frameworks to reduce costs of NPL resolution*, including modernized insolvency regimes and effective options for disposing distressed assets.

  - *Stronger collateral infrastructure,* including ensuring broad-based participation in the credit bureau, development of a centralized movable asset registry, and more coordinated support for the ECPCGC. Developing a real estate cadaster and reviewing potential tax and other policy constraints to property market liquidity can help reduce collateral valuation uncertainties.

  - *Limiting potential credit price distortions*, including by reviewing the MSR alongside the ongoing efforts to encourage regional capital market development and more granular dissemination of regional lending rates to improve customer awareness and facilitate efficient market price discovery.

- ***Closer regional policy coordination to support private sector bankability.***[13] A regional stocktaking of existing national and commercial bank-led initiatives would leverage synergies with the regional initiatives and facilitate development of best practices, where competing direct lending programs under national development banks should closely consider their risk-bearing capacity.[14] More concerted active outreach programs can also foster product awareness and business formalization.[15] Reforms to alleviate other supply-side bottlenecks, including in labor and energy markets, would also support regional private sector development and creation of credit opportunities (Annex VI).

[13] Establishment of a new regional Office of Financial Conduct and Inclusion (OFCI) planned in late 2025, with a mandate over union-wide financial literacy and inclusion, could support regional coordination of initiatives.

[14] See, for instance, St. Kitts and Nevis: Staff Concluding Statement of the 2025 Article IV mission.

[15] The ECCU 2022/23 financial literacy and financial inclusion survey suggests limited awareness of microfinance loan products. The ECPCGC is conducting more active business outreach following a 2024 launch of a micro-enterprise tailored guarantee option that, for instance, builds in the hiring of accounting services as part of the loan structure.

INTERNATIONAL MONETARY FUND

EASTERN CARIBBEAN CURRENCY UNION

STAFF REPORT FOR THE 2025 DISCUSSION ON COMMON POLICIES OF MEMBER COUNTRIES —SUPPLEMENTARY INFORMATION

April 29, 2025

Prepared By | Western Hemisphere Department
(In consultation with other departments)

The supplement provides an update to the staff report (SM/25/73) on recent developments and does not alter the thrust of the staff appraisal.

1. Recent changes in global trade policies and exceptionally high global policy uncertainty present a negative shock for the ECCU, while downside risks prevail. As reported in the April World Economic Outlook, the escalation of trade tensions and high levels of policy uncertainty are a major negative shock to global economic activity. For ECCU economies, these developments are expected to adversely affect regional growth, as lower expected growth in the U.S. and other advanced economies translates into a weaker outlook for tourism. Compared to the staff report, staff estimates that average ECCU growth in 2025 and 2026 will be lower by 0.3 and 0.1 percentage points, at 3.2 and 3.1 percent, respectively. Meanwhile, average inflation in the region is expected to rise only slightly as lower projected food and oil prices partially compensate for the impact of increased tariffs. Risks to the outlook are elevated and tilted to the downside, mainly stemming from the highly uncertain external environment, layered on downside risks identified in the staff report. Potential trade and tourism diversion and faster implementation of much-needed structural reforms provide some upside risks to growth.

2. The thrust of the staff appraisal remains unchanged. The increasingly uncertain global environment underscores the staff report's assessment that common policies should focus on strengthening economic, fiscal and financial resilience. This includes rebuilding fiscal buffers and pressing on with structural reforms to address regional supply bottlenecks to growth, while tailoring policies to cushion the spillovers from the more adverse external outlook.

INTERNATIONAL MONETARY FUND

EASTERN CARIBBEAN CURRENCY UNION

STAFF REPORT FOR THE 2025 DISCUSSION ON COMMON POLICIES OF THE EASTERN CARIBBEAN CURRENCY UNION—INFORMATIONAL ANNEX

April 9, 2025

Prepared By

Western Hemisphere Department
(In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of April 10, 2025)

1. Membership Status. Not Applicable.

2. Exchange Arrangement. The Eastern Caribbean Currency Union (ECCU) comprises six Fund members: Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines; and two territories of the United Kingdom, Anguilla and Montserrat. The eight ECCU members have a common currency, monetary policy, and exchange system. The common currency, the Eastern Caribbean (EC) dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. The common central bank, the Eastern Caribbean Central Bank (ECCB), has operated like a quasi-currency board, maintaining foreign exchange backing of its currency and demand liabilities of close to 100 percent.

3. Safeguards Assessment. An update assessment of the ECCB, finalized in August 2021, found strong external audit and financial reporting practices that continue to be aligned with international standards. All but one safeguards recommendation have been implemented, including on further improvements in the capacity of the internal audit function and risk management. The outstanding recommendation on legal reforms to align the Agreement Act with leading practices is a work in progress.

CARTAC: CAPACITY BUILDING IN THE ECCU[1]

(As of April 10, 2025)

Highlights of Caribbean Regional Technical Assistance Center (CARTAC) technical assistance (TA) and training to the ECCU countries in the various core areas are provided below.

4. CARTAC continues to implement a strong capacity development (CD) program with the ECCU countries and the ECCB. In addition to the Centre's traditional TA areas, there has been greater focus over the past two years on incorporating climate and disaster risks in various workstreams. The ongoing work is highlighted below.

A. Tax Administration

5. The tax administration program for ECCU member countries focuses on: (i) CD in tax administration core functions (taxpayer service and education, audit, compliance with registration, filing, and payment obligations); and (ii) CD in management and governance arrangements (compliance and institutional risk management, reform management, dispute resolution, organizational management, including strengthening large taxpayers' operations, information and communication technology (ICT) and data management, human resource management, and strengthening the legal framework).

6. In the area of core tax administration functions. Anguilla received training aimed at strengthening compliance, collection, and taxpayer service. Grenada received several CD missions focused on cleansing the taxpayer database and facilitating data migration into the new Multi Tax System (MTS), which is being implemented with funding support from the World Bank. These missions addressed data inconsistencies, refined migration strategies, and enhanced the Inland Revenue Department's (IRD) staff skills in data management. Additionally, the Grenada IRD received support to advance their efforts in measuring the VAT gap. Dominica participated in a virtual workshop aimed at assisting countries in measuring the VAT gap. The workshop applied the Revenue Administration Gap Analysis Program (RA-GAP) model to country-specific data and conditions. After the workshop, the IRD of Dominica received bilateral assistance from CARTAC to advance their efforts in measuring the VAT gap. St. Lucia benefited from two CD missions designed to enhance collections and enforcement actions, supported by computer-assisted audit tools (CAATs). CARTAC also provided TA diagnosing data quality within the current Standard Integrated Government Tax Administration System (SIGTAS) and on developing an action plan to prepare for the implementation of a new Integrated Tax Administration System (ITAS). St. Vincent and the Grenadines received CD to finalize preparations for the launch of an e-filing and e-payment platform. This initiative significantly simplified electronic payments, enhancing safety, transparency,

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and efficiency for both taxpayers and the IRD. St. Vincent and the Grenadines also received bilateral support to advance their efforts in measuring the VAT gap.

7. **In the area of management and governance arrangements.** CD Delivered to Anguilla focused on discussing the IMF's Result-Based Management (RBM) framework and establishing priorities for future cooperation based on identified needs and recommendations from previous CD assignments. Antigua and Barbuda received support in enhancing the administration and compliance of the Antigua and Barbuda Sales Tax (ABST). St. Kitts and Nevis received two CD missions aimed at strengthening its strategic management framework and developing a new strategic plan, along with supporting sub-plans, including the annual operational plan. This new strategic plan covers the period from 2024 to 2028. St. Vincent and the Grenadines received support in developing a well-structured program to enhance the delivery of strategies required to improve revenue collection.

8. **Tax Administration Diagnostic Assessment Tool (TADAT).** The coverage of TADAT in ECCU countries continues to increase. *Anguilla* and *Grenada* received TADAT Training in FY25. Other ECCU countries that have expressed an interest in having a TADAT assessment conducted includes *St. Kitts and Nevis* and *Grenada*.

Table 1. TADAT Coverage in ECCU Countries[1]

	TADAT Training	TADAT Assessment	Post TADAT Implementation Plan
Anguilla[2]	FY25		
Antigua and Barbuda	FY19	FY19	
Dominica	FY20	FY21	FY21
Grenada	FY25		
St. Lucia	FY22	FY22	FY23

[1] There were no official TADAT engagements with *Montserrat, St. Kitts and Nevis or St. Vincent and the Grenadines.*
[2] Anguilla has requested a TADAT Assessment for September 2025.

9. **CARTAC continues to monitor progress through the IMF's Results-Based Management (RBM) framework.** CARTAC continues to monitor progress with respect to implementing recommendations from CD and to ensure that implementation targets for key recommendations are met. Material has been developed to facilitate the dialogue around RBM with country counterparts. Staff shortage and turnover still represents a risk to sustainability and continuity in the implementation of recommendations.

10. **ECCU member countries benefitted from several regional workshops, seminars, and webinars in FY24 and FY25:**

- **Regional hybrid TADAT training.** In collaboration with the TADAT Secretariat, a four-day hybrid TADAT training, engaging 157 participants from four CARTAC members, including Grenada and Anguilla was delivered in September 2024. The training focused on familiarizing participants with the TADAT framework and international best practices in tax administration.

- **COTA general assembly and technical conference in St. Lucia.** The CARTAC Tax Advisors participated at the Caribbean Organization of Tax Administrators (COTA) General Assembly and Technical Conference, held in St. Lucia from July 22 to 26, 2024. The conference, themed "Tax Resilience in a Rapidly Changing Global Environment," offered a unique platform to promote CARTAC's role in CD within tax administration and showcasing the IMF's Results-Based Management (RBM) framework as a tool for planning and monitoring CD progress. The event also provided an opportunity for engagement with other CD providers. Key issues raised included the need for better communication and coordination among CD providers, and the challenges posed by staff turnover in tax administrations.

B. Customs Administration

11. Customs administration focused on strengthening managerial skills and risk management to help ensure (i) leadership, management, and governance; (ii) trade facilitation; and (iii) securing revenue.

12. Strengthening strategic management and leadership. This initiative aimed to assist the customs administration in Grenada in improving the managerial skills of customs staff by delivering Leadership and Management Development (LMD) training focused on enhancing reform management. Additionally, CARTAC enhanced the strategic management capacities in St. Vincent and the Grenadines by assisting them with updating their customs corporate plan and defining a new strategic plan aimed at achieving departmental priorities and government policy objectives. These initiatives will primarily be implemented with financial support from the World Bank. Such efforts will enable customs administrations to better prioritize and manage reform initiatives while improving resource efficiency.

13. Customs risk management with special emphasis on petroleum imports. TA has been provided to St. Vincent and the Grenadines and Grenada. This sector represents a significant source of revenue, and Customs Departments have focused on enhancing controls to ensure that traders provide accurate reporting and pay the correct duties. Further technical assistance will be offered in this area.

14. Building capacity to extract, analyze and use customs data. A regional workshop was organized on "Enhancing Data Management for Customs Risk Management," with the participation of 30 officers from the Customs Administrations covered by CARTAC, including Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Anguilla, and Montserrat. This event was organized in coordination with the Caribbean Customs Law Enforcement Council (CCLEC) and the World Customs Organization (WCO). The main objective was to build capacity in the acquisition, analysis, and use of data for informed decision-making and more effective customs risk management, with the goal of improving compliance.

C. Public Financial Management

Technical Assistance

15. Fiscal responsibility. CARTAC supported the Government of St. Lucia in conducting a diagnostic review of the Budget Office (BO), focusing on its organizational structure and staffing needs. This review identified the necessity for a shift from a policy-based framework to a more comprehensive departmental structure, categorizing the BO's functions into economic, social, parliamentary, general services, and justice sectors. To enhance effectiveness, CARTAC proposed adding a second Deputy Director dedicated to budget planning, process renewal, outreach, and reporting, overseeing an Assistant Director, a Budget Analyst, and a Budget Assistant. This restructuring aims to improve overall efficiency and responsiveness to financial planning needs.

16. Government asset management. CARTAC assisted the Government of St. Vincent and the Grenadines in developing comprehensive Government Asset Management Regulations to address gaps in the existing legal framework. This collaborative effort involved stakeholders from various government departments, successfully drafting regulations to standardize the management, maintenance, utilization, valuation, and disposal of government assets, thereby enhancing accountability, and optimizing resource allocation.

17. Green and gender budgeting. A mission provided support to the Government of Montserrat to integrate gender and green perspectives into the budget planning framework. Collaborating with Ministry of Finance officials, we developed processes for gender and green budgeting and conducted twelve training workshops for senior officials across all line ministries. The authorities were highly engaged and expressed strong support for the proposed enhancements, requesting follow-up assistance.

18. Fiscal risk management of State-owned Enterprises (SOEs). CARTAC provided technical TA to support the Government of Antigua and Barbuda (GoAB) in enhancing its management and oversight of State-owned Enterprises (SOEs). As part of this initiative, CARTAC conducted a thorough gap analysis of the existing institutional arrangements and performed a preliminary assessment of the fiscal risks associated with priority SOEs under the GoAB. This assessment utilized the State-owned Enterprise Health-Check Tool (SOE HCT), which is designed to evaluate the health and performance of SOEs. During the mission, we identified several fiscal risks and quantified the government's exposure to these risks. Our findings highlighted the need for improved oversight and management of fiscal reporting for SOEs. By addressing these areas, the GoAB can strengthen its financial governance and enhance the accountability of its state-owned enterprises, ultimately leading to better Public Financial Management (PFM) and more effective service delivery.

19. Treasury operations. CARTAC supported the Government of St. Lucia in reviewing business processes to prepare for upgrading its Financial Management Information System from SmartStream to Cloudsuite. During a two-week mission, we conducted meetings to assess current operations. We also reviewed the Chart of Accounts (CoA) and recommended improvements, including extending administrative classifications to include spending units (cost centers) and updating the economic segment structure to align with the Government Finance Statistics Manual 2014 (GFSM2014).

20. Public sector accounting. CARTAC provided several TAs and support in this area:

- A technical assistance mission for the Government of St. Lucia focused on implementing financial reporting using International Public Sector Accounting Standards (IPSAS). Currently, two major obstacles impede IPSAS implementation: a significant backlog in overdue financial statements, with the last available statements for the year ended March 31, 2015, and a lack of resources to produce these statements. Once these obstacles are overcome, implementing IPSAS-compliant financial statements (based on the IPSAS Cash Standard) would be relatively straightforward. The Government of St. Lucia would benefit from using a disclosure checklist to ensure all required disclosures are included in the financial statements; a completed template was presented during the mission.

- A mission was arranged to support the Government of St. Lucia in upgrading its CoA to better align with GFSM2014 and IPSAS-based reporting. This effort builds on previous missions that recommended key improvements to the economic segment of the CoA before implementing the new version of the Financial Management Information System (FMIS), Cloudsuite (CS), and upgrading the existing SmartStream FMIS, scheduled for April 1, 2025.

- CARTAC provided support to the Government of St. Vincent and the Grenadines in developing a set of Financial Instructions to facilitate the preparation of Annual Financial Statements in accordance with IPSAS cash-basis format. The mission, in collaboration with a team of Treasury staff, developed a draft set of FIs along with an accompanying disclosure checklist.

21. Cash management. A mission explored ways to strengthen cash management in St. Vincent and the Grenadines. Discussions were held with diverse stakeholders across government and reviewed relevant data. During a three-day workshop, CARTAC delivered presentations on best practices in cash management and on using the IMF's Cash Forecasting and Analysis Tool (CFAT) to develop a forecasting model. Additionally, CARTAC conducted three mornings of training on cash management for Treasury and Ministry of Finance staff, helping to populate the CFAT with GoSVG data to produce a monthly forecast for the remainder of 2023.

Regional Workshops

22. Regional conference. In October 2024, both of CARTAC's PFM advisors attended and presented at the Eastern Caribbean Customs Union (ECCU) meeting of Accountant Generals, Budget Directors, and Directors of Audit, hosted by the Eastern Caribbean Central Bank (ECCB) in St. Kitts and Nevis. This was the first in-person event since the pandemic, with participation from Budget Directors, Accountant Generals, and their staff from all eight countries. During the cash management session, participants identified key constraints in developing credible cash forecasts, including revenue volatility, unpredictable commitments, unplanned expenses by line ministries, poor forecasting capacity, regular virements, and inadequate financial management systems. They noted that unrealistic budgets significantly hinder cash forecasting and highlighted poor collaboration between debt and cash management units, central banks, and line ministries as contributing factors. Participants expressed a need for CARTAC cash management training, particularly for line ministries. CARTAC plans to coordinate with the ECCB to provide two days of training alongside one of the two ECCU meetings scheduled for 2026, leveraging the regional gathering to reduce logistical costs.

D. Financial Sector Supervision

23. CARTAC continued to work closely with the ECCB on the implementation of the Basel II/III capital framework. The ECCB has made appreciable progress with the implementation of Basel II/III (Pillar 1) including addressing TA mission recommendations.

- In FY24, ECCB requested support to review the first ICAAP submissions in the region. This TA was provided in February 2024 and comprised a blend of training sessions and collaborative discussions, culminating in the assessment of three ICAAP submissions from ECCU banks. These sessions offered valuable guidance and practical illustrations on ICAAP assessment, laying a robust groundwork for evaluating future ICAAP submissions. Additionally, they set the stage for addressing the TA request for calibrating Pillar 2 additional capital requirements, finalized in March 2024.

- Regarding the implementation of the Pillar I Basel framework, the ECCB concluded the parallel run in April 2024, thereby fully enforcing the standard across the region. This marks a significant milestone in the Basel Framework implementation. Subsequently, CARTAC will extend further assistance in FY25 by focusing on on-site methodologies to ensure compliance with the updated standard.

24. During FY23 to FY25, follow-up bilateral missions on RBS for the cooperative sector were conducted in *Grenada* (two missions in February and March 2023) and in *St. Lucia* (August 2023). Additional TA was delivered for FY24 in the RBS framework and the assessment of credit risk in Grenada (March 2024) and in St. Lucia (May 2024). Both Grenada and St. Lucia have made significant progress in the implementation of the RBS risk taxonomy and templates. Further TA in these jurisdictions is focused on the enhancement of the existing capabilities and assessment methodologies on the most material risks for the cooperative sector, starting with the assessment of the credit quality of the portfolio and the identification of early warning signals and forborne exposures.

25. In FY24, *St. Lucia* welcomed additional CD missions focusing on the Own Risk and Solvency Assessment (ORSA) and the implementation of Risk-Based Supervision (RBS) within the insurance sector. The ORSA serves as a robust foundation for a risk-based capital supervisory framework for insurance companies in Saint Lucia, a process that demands significant time and effort to finalize. The CD initiatives concerning the RBS framework offered supervisors further guidance and assistance in evaluating risk matrices and templates tailored for insurance companies.

26. In FY2025, St. Lucia received further TA focused on corporate governance guidelines and on-site methodologies for insurers. The Corporate Governance and Enterprise Risk Management Guidelines mission provided a solid foundation for the authorities to enhance the regulatory requirements in the area with the issuance of a guide that was reviewed in a follow up mission in January 2025. A workshop on on-site inspections was also started to equip the authorities with the necessary tools to further develop internal manuals on on-site methodologies for insurers.

27. Single Regulatory Units (SRUs) have benefited from multilateral TA in the implementation of IFRS 17, facilitated through the Caribbean Association of Insurance Regulators (CAIR). Substantial resources have been dedicated to support the implementation of IFRS 17 for insurance contracts, which supersedes IFRS 4. New supervisory reporting templates have been devised and are currently undergoing testing through parallel run exercises in most jurisdictions. A special acknowledgment is due to Grenada, which currently leads one of the IFRS 17 implementation workstreams. However further progress is needed, as full implementation has yet to be achieved in any of the ECCU countries.

28. Both insurance and bank supervisors from the ECCU member territories participated in several regional workshops and webinars hosted by CARTAC, and jointly with IMF-HQ.

- In October 2023, a virtual workshop on the supervision of credit unions was hosted by the Caribbean Group of Bank Supervisors. The workshop emphasized key governance and operational challenges faced in the supervision of credit unions. It also highlighted the importance of fostering collaboration among credit unions through their associations to enhance their effectiveness and resilience in the financial system.

- In September 2024, a virtual workshop focused on the integration of climate-related risks into the regulatory and supervisory framework for banks. This workshop showcased the experiences of three different countries, providing valuable insights into their approaches and challenges. Participants discussed critical data collection strategies and methodologies, aiming to equip regulators with the tools necessary to address climate-related financial risks effectively.

- Lastly, in October 2024, a workshop on Fintech was held in Panama. This event covered a wide range of topics, including the implementation of regulatory sandboxes, advancements in machine learning, and the emergence of regulatory technology (regtech) and supervisory technology (suptech). Additionally, the workshop explored the evolving landscape of e-money and crypto assets, addressing both opportunities and regulatory challenges. Experts from various sectors participated in discussions to share best practices, experiences, and innovative solutions for effectively integrating Fintech into the financial regulatory framework.

E. Financial Stability

29. CARTAC has continued to work with the ECCB on enhancing financial stability analyses and the corresponding analytical toolkit. In 2023, CARTAC delivered CD to enhance financial stability analyses and assessments. The mission included a workshop on key aspects of the financial stability agenda covering financial stability and macroprudential policy, measuring financial stability, credit risk and stress testing, insurance and pension funds balance sheets and corresponding financial stability risks, essential elements of climate risk and interconnectedness, and contagion risk. In addition, the mission reviewed the existing Financial Stability Report (FSR) and other relevant documents to identify existing gaps. It also included a discussion on available relevant data sources and their management. The mission provided several recommendations that covered methodological work on the financial stability analytical toolkit, enhancement of the FSR, internal and external processes and communication related to the financial stability agenda, and data sources and their management. Following these recommendations, the ECCB has made progress in several areas, especially analyzing credit and climate risks. They are currently developing credit risk models that will be used for multi-period macro-stress testing in line with the 2023 TA recommendations.

30. CARTAC also supports the ECCB in its effort to include climate risk in its financial stability analytical framework. Climate change is a very important risk for financial stability in the ECCU. The CARTAC TA mission in May 2023 included some basic elements of climate risk during the discussions. This topic was further discussed in the CARTAC climate risk regional workshop in February 2024, where the ECCB contributed as one of the speakers.

31. Moving forward, the ECCB needs TA in two areas—financial stability analytical toolkit and climate risk. Regarding the analytical toolkit, the focus will be on multi-period macro-stress testing of the banking sector. The corresponding TA will likely take place during the second half of 2025. This may be followed by the climate stress testing TA in 2026.

32. The explicit financial stability mandate and data sharing of individual data should be established in the ECCB. The ECCB macroprudential mandate is currently only implicit, supported by memorandums of understanding with the national authorities, and the legislation related to the explicit mandate is still being drafted. However, regarding non-bank ECCU data, the ECCB receives only aggregates from most member countries. Based on this information, a more detailed financial stability analysis beyond banking cannot be fully conducted by the ECCB. Hence, the macroprudential mandate and the cooperation with the ECCU countries need to be clarified.

33. Macroprudential work conducted by non-banking authorities in the ECCU member countries is rather limited. The focus is mainly on stress testing for credit unions. The current reporting for insurers (not risk-based) has not allowed the authorities to conduct more extensive macroprudential work for the sector. This setup might change with the transition to IFRS 17. However, the limited capacity and non-existence of macroprudential/financial stability teams will be constraints for further development in this area. Hence, the discussion on the implicit ECCB macroprudential mandate and further cooperation with the ECCB needs to be conducted.

F. Anti-Money Laundering / Combatting Financing of Terrorism

34. During FY2025, the Legal Department delivered a one-week hybrid training course for ECCU member countries on transparency of beneficial ownership, based on Fund's publication

"Unmasking Control: A Guide to Beneficial Ownership Transparency". The course was designed to improve the understanding of national stakeholders involved in establishing, operating, and/or using beneficial ownership frameworks, and was attended by 30 selected (in-person) and 88 (remote) participants from anti-money laundering/combating the financing of terrorism (AML/CFT) competent authorities (primarily comprised of supervisory bodies, but also including financial intelligence units and law enforcement officials). The course helped to increase participants' understanding of the technical requirements of the FATF standard for transparency of legal persons and legal arrangements and provided guidance on key policy decisions related to the implementation of these requirements. These included (i) discussions related to the measures necessary to reflect the changes to the revised standard in a jurisdiction's legal and regulatory framework to ensure countries hold adequate, accurate and up-to-date beneficial ownership information; (ii) ways to set up and manage beneficial ownership registers for legal persons; (iii) issues related to identification, verification, access to, and dissemination of beneficial ownership information; and (iv) how beneficial ownership information, in addition to AML/CFT, can be useful for a broad range of policy areas (e.g., procurement, and conflict of interest).

G. Real and External Sector Statistics

35. During the period December 2019–May 2025, the CARTAC program on economic and financial statistics concentrated on improving external sector, national accounts, and price statistics in the ECCU countries. CARTAC's support in national accounts was targeted towards rebasing GDP, development of expenditure-based GDP (GDP-E), and development and updating the Consumer Price Index (CPI) and the Producer Price Index (PPI). Due to the joint External Sector Statistics (ESS) work program between the ECCB and the ECCU National Statistical Offices (NSOs), CARTAC missions on ESS are scheduled right after the ECCB missions to ECCU countries for data collection and compilation, with the objective of benefiting members of all the working teams in the most efficient way possible.

36. Of note for FY2025, good progress was made by *Dominica and Montserrat on GDP rebasing*. Dominica, Grenada and Montserrat finalized rebased or re-referenced estimates of GDP to 2018 prices. A Mission to Grenada in January 2025 also supported the development of supply and use tables (SUT). For all three countries, improvements were introduced to sources and methods, including the use of administrative data (Value Added Tax, Social Security Data). The rebased estimates resulted in revisions to GDP at current prices, and the results were backcasted to 2000. In St. Lucia, a methodology and templates were developed to estimate GDP-E. This methodology can also be used for other ECCU countries which also compile SUT.

37. Progress is also being made by countries to improve price statistics. Notably, in Antigua & Barbuda and Saint Lucia, assistance was provided to develop and update the PPI. St. Kitts and Nevis built institutional capacity to improve the consumer price index compilation methodology and update the expenditure weights based on the 2019 Household Budget Survey.

38. During FY2025, a regional national accounts training workshop took place in Panama. The training focused on broad-based national accounts, with an emphasis on estimation of production-based GDP (GDP-P). It was intended for relatively new compilers of National Accounts. Of the 42 participants, 13 were representatives of ECCU, as well as staff from the ECCB.

39. Supported by CARTAC, since 2017 the ECCB and ECCU's NSOs have jointly been disseminating enhanced annual balance of payments and International Investment Position (IIP) statistics for each ECCU member country and the ECCU region following the *BPM6* guidelines. Data for 2014 onwards are available on the ECCB's website and re-disseminated in the IMF's *Balance of Payments Statistics Yearbook (BOPSY)* and *International Financial Statistics (IFS)*. CARTAC has continued assisting ECCU member countries in strengthening the compilation framework of the ESS and dissemination of statistics, mainly through improving the timeliness of data and enhancing the coverage, methodology, and the quality of prioritized balance of payments components, with the incorporation of a wider variety of data sources to supplement business surveys. In December 2022, the ECCB started to disseminate a table with several quarterly indicators for the balance of payments of the eight ECCU countries starting from 2019-Q4. The metadata of the balance of payments and the IIP for the ECCU countries and an advance release calendar for ESS were also released on the ECCB website to guide policy makers and data users External Sector (eccb-centralbank.org). The dissemination of these indicators is an important step towards the production of more comprehensive quarterly balance of payments and IIP, which is targeted for December 2025.

40. In January 2024, the ECCB disseminated the backcasted *BPM6*-based balance of payments for 2000-13. When the ECCB disseminated the *BPM6*- based balance of payments and the International Investment Position (IIP) with data from 2014 onwards, in addition to methodological changes from the Balance of Payments Manual, 5th edition (*BPM5*) to *BPM6*, data gaps were also addressed. For that reason, the backcasting included: (i) the reclassification of time series from the former *BPM5* presentation to the *BPM6* presentation; (ii) the identification of structural breaks; and (iii) the selection of backcasting techniques to adjust historical estimates, considering data availability.

41. In FY2025, CARTAC continued working with the ECCU countries and the ECCB on source data and statistical techniques. Recommendations provided by ESS missions on travel exports were adopted in Anguilla and Montserrat BOPs, data on imports of fuel were revised in St. Lucia and imports of services regarding the modernization of the port in St. Vincent and the Grenadines were included. Recommendations provided during the latest missions to the ECCU countries regarding direct investment related to Citizenship by Investment (CBI) programs are pending. There are limitations on current tourism surveys. Actions regarding a better knowledge of the yacht industry to identify expenditure of yacht visitors and other cross border transactions (maintenance and other services, and fuel), especially in Antigua and Barbuda, Grenada, St. Lucia and St. Vincent and the Grenadines expected to be accomplished during 2025. Due to the relevance of tourism statistics for the balance of payments, a workshop on travel credits for the ECCU countries was delivered in June 2024. Compilers from the NSOs, the ECCB and tourism authorities attended the event.

42. CARTAC will continue supporting the ECCB and the NSOs medium-term work program. This includes the compilation and dissemination of quarterly balance of payments and IIP, addressing pending tasks regarding merchandise trade statistics, the Coordinated Direct Investment Survey, and the compilation of public and private external debt in line with international standards.

H. Macroeconomic Forecasting and Analysis

43. The primary objective of CARTAC's involvement in macroeconomics within the ECCU region focused on analyzing debt dynamics, Nowcasting, and medium-term fiscal frameworks. In July 2024, a hands-on workshop was held, bringing together participants from the ECCU member countries. During the workshop, customized iterations of the IMF Institute for Capacity Development's (ICD) 'Public Debt Dynamics Tool' (DDT) were developed in collaboration with ECCB staff. Participants demonstrated a strong understanding of the tool through their presentations, which highlighted country-specific analyses and risk scenarios using the DDT.

44. Technical assistance in nowcasting and the debt dynamics tool was successfully developed in collaboration with ECCB staff. The Nowcasting assistance focused on using high-frequency data to estimate and monitor GDP dynamics across various ECCU countries. Given the growing interest in the Nowcasting methodology, ECCB staff is now working on converting several Nowcasting programs originally developed in EViews into the open-source R environment.

45. Support has been extended to *Grenada* for enhance real sector analysis and medium-term fiscal projections. Ongoing efforts are focused on updating the forecasting components and equations, primarily within the real sector framework. This includes refining models for forecasting key real variables such as GDP, inflation, and tax revenues. Additionally, training sessions on advanced macro-econometric techniques are being conducted, along with the integration of new tools and methodologies within the EViews platform.

46. Several regional events—courses and webinars—were attended by staff from the ECCB and ECCU member-country governments. Webinars and courses jointly offered with the IMF's Institute for Capacity Development (ICD) covered key topics such as Inclusive Growth, the Macroeconomics of Climate Change, Fintech, and fiscal policy. These sessions provided comprehensive coverage of emerging issues and practical approaches in these areas, fostering participant engagement and capacity development.

47. During September 2024, CARTAC in collaboration with the UNFPA hosted a workshop themed "Assessing the macro-impact of gender gaps and costing investments to close them". In this HQ-led mission, participants from Social and Finance Ministries in the region were trained on analytical tools: (i) to examine gender related statistics; (ii) to identify macro-critical gender gaps; (iii) to estimate the impact of gender gaps on GDP; and (iv) to cost policy interventions. Additionally, participants learned how macroeconomic policies could be used to narrow the gender gap.

I. Debt Management

48. CARTAC, through the debt management program launched in late 2020, has engaged with ECCU countries, as well as the ECCB, on several key issues. Most of the countries already develop medium-term debt management strategies, but the strategies in practice do not always consistently guide individual borrowing decisions. Due to the global pandemic, the countries have had to raise higher-than-usual volumes of financing, while trying not to exacerbate debt sustainability vulnerabilities. Transparency of debt stocks and flows is generally low, and the reports on debt policy, composition, and operations that are published often suffer from limited coverage, uneven data quality, and lengthy delays between the reporting date and public release. To date, CARTAC has had technical assistance missions to the ECCB and *Antigua and Barbuda*, *St. Lucia, Dominica, and St. Vincent and the Grenadines*. There are additional technical assistance missions planned for *Antigua and Barbuda and St. Lucia*.

49. CARTAC has delivered two capacity-building activities targeted solely at ECCU countries and the ECCB. These missions focused on strengthening the Regional Government Securities Market (RGSM) and developing a regional retail bond market. The ECCU authorities benefitted from sessions exploring different retail bond options and from a peer learning activity with the Brazilian treasury on the Brazilian retail bond market, including its: pricing, platform, costing, resources, and communication strategy.

50. ECCU countries and the ECCB will also participate in the regional training. These will include (i) a climate finance seminar scheduled for February 2025; (ii) A workshop scheduled for May 2025 on the Low-Income Countries Debt Sustainability Analysis Tool (LIC DSA); and (iii) a workshop on debt transparency, debt recording and reporting scheduled for May 2025.