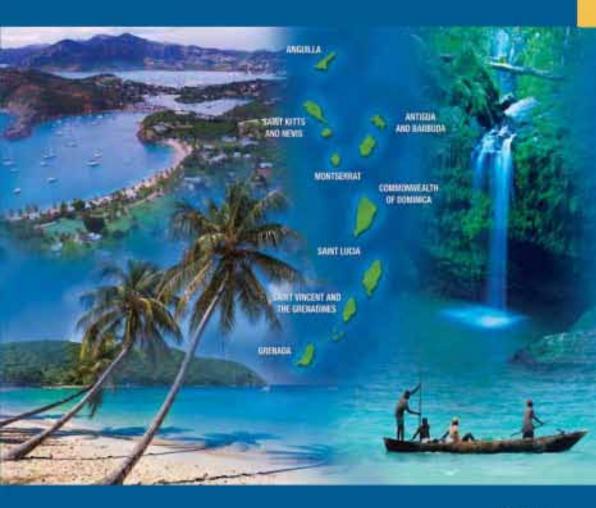
# The Eastern Caribbean Economic and Currency Union

Macroeconomics and Financial Systems



Alfred Schipke, Aliona Cebotari, and Nita Thacker

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Macroeconomics and Financial Systems

EDITORS

Alfred Schipke, Aliona Cebotari, and Nita Thacker

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#### **Foreword**

Like countries everywhere, policymakers in the Eastern Caribbean Economic and Currency Union face major challenges—creating jobs, making growth more inclusive, fiscal consolidation, bank reform, and managing volatility. The IMF is committed to being a partner to help our member countries manage these challenges.

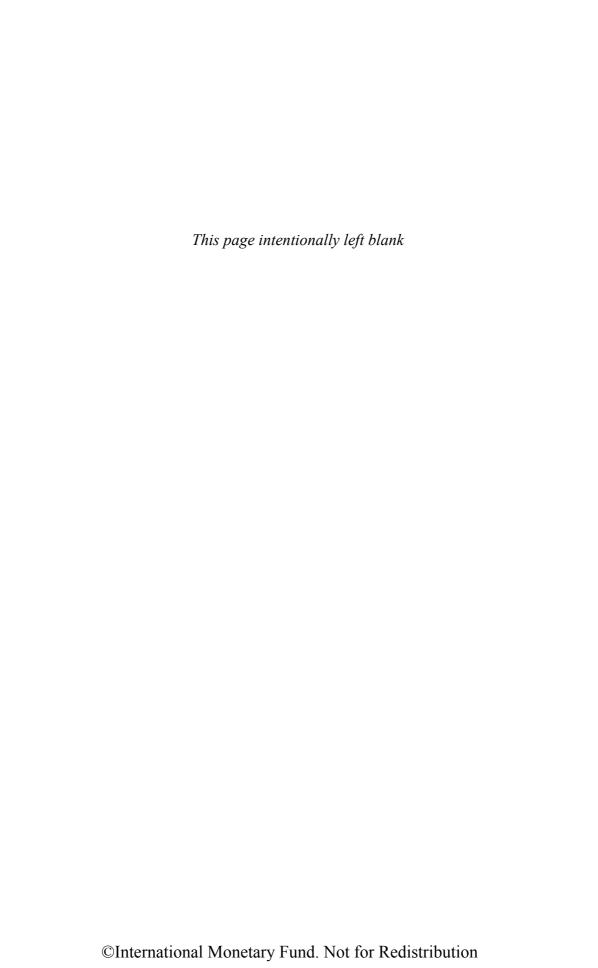
Building stronger partnerships with countries across the Caribbean, including members of the economic and currency union, is an important priority for the IMF. We have stepped up our efforts to support these countries, including through enhanced dialogue, increased capacity building, more analytical work, and additional financing. For example, over the past couple of years, the IMF approved a total of eight requests for financial support for five members of the union.

This handbook draws on a wide range of work that captures the depth and breadth of the IMF's analysis across the region. It covers many important issues, among them growth, public revenue and expenditure, the financial sector—including linkages between the financial sector and the macroeconomy—as well as obstacles to private sector development. The handbook also delves into issues specific to the institutional underpinnings for the monetary union and the functioning of the Eastern Caribbean Central Bank. Finally, it includes case studies on recent experiences with debt restructurings and a chapter on developing regional capital markets—both topics of broader interest.

Much of this work in the region goes hand-in-hand with the IMF's efforts to give more attention to issues facing small states—especially those most vulnerable to external shocks, such as in the Caribbean—and to ensure effective IMF support for low-income countries.

To improve the living conditions of all citizens, the IMF remains committed to its continuing relationship with the Eastern Caribbean Economic and Currency Union, both for each country and for the union as a whole. I hope this book will serve as a resource for policymakers in the region and for those interested in monetary unions, microstates, and island economies.

Christine Lagarde Managing Director International Monetary Fund

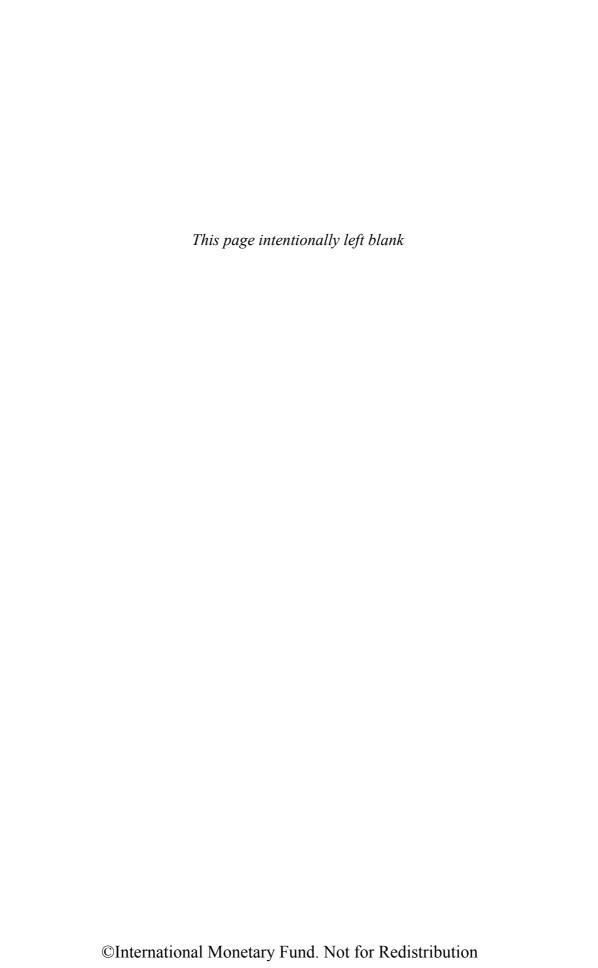


#### **Preface**

This publication is the first of its kind and provides a comprehensive analysis of the key macro-economic and financial sector issues in the Eastern Caribbean Economic and Currency Union (OECS/ECCU). It complements two previous IMF publications on the Caribbean, *The Caribbean: From Vulnerability to Sustained Growth* (2006) and *The Caribbean: Enhancing Economic Integration* (2008), as well as a World Bank publication, *The Organization of Eastern Caribbean States: Towards a New Agenda for Growth* (2005). This volume combines coverage of the various analytical topics with a discussion of the institutional setup of the economic and monetary union, and provides background information on the social, political, and economic setting. An understanding of all of these areas is important for the formulation and successful implementation of sound policies.

This book would not have been possible without the support of many economists and research assistants, cutting across a large number of IMF departments and the Eastern Caribbean Central Bank (ECCB). The authors would also like to express their appreciation for the useful comments and suggestions received from the authorities in the region, the ECCB, and the participants at the 2011 conference "Options for the Caribbean after the Global Financial Crisis"—organized jointly by the University of the West Indies, the Central Bank of Barbados, and the IMF in Barbados—as well as the participants at the 2011 Joint ECCB/IMF Seminar in St. Kitts. The editors would like to thank Laurel Bain and Karen Williams of the ECCB for their support throughout the project.

The authors are indebted to Rodrigo Valdéz and David Vegara for their comments and guidance. Special thanks go to Adrienne Cheasty, who was instrumental in organizing the development of the chapters on fiscal revenue and public expenditure. Xin (Mike) Li did an outstanding job of managing, producing, and formating the many figures and tables in record time. The authors would also like to thank Joy Villacorte for coordinating the production of the manuscripts and keeping tabs on the many contributions. Most important, the authors would like to thank Sherrie Brown for an outstanding job in copy editing the manuscript and Joanne Johnson of the IMF External Relations Department, who not only coordinated the production of the publication, but was instrumental in developing the project.



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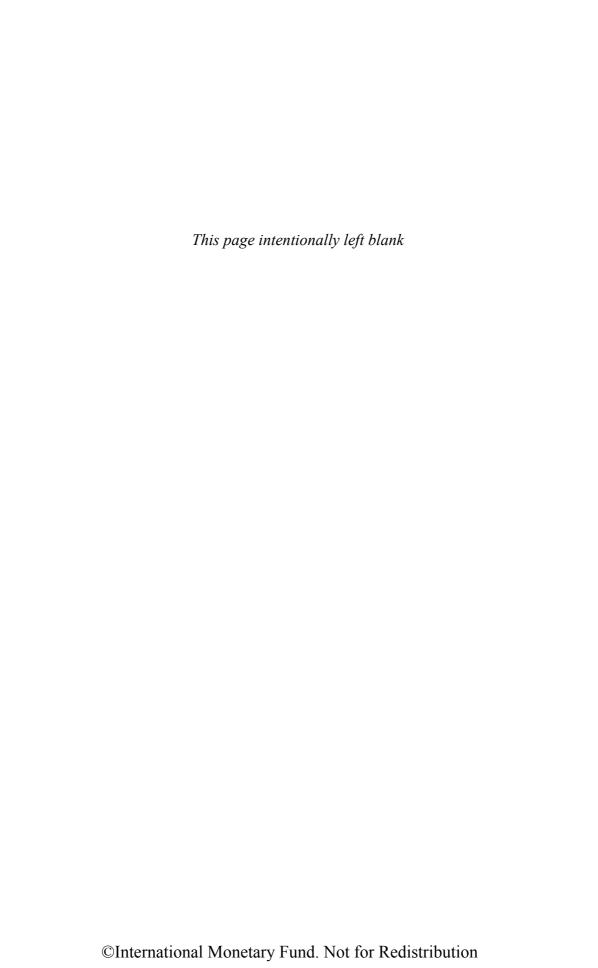
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## **Abbreviations**

ABIB Antigua and Barbuda Investment Bank

AfDB African Development Bank

AML/CFT anti-money laundering and combating the financing of terrorism

BAICO British American Insurance Company
BIS Bank for International Settlements

BPM5 IMF, Balance of Payments and International Investment Position Manual,

fifth edition

BPM6 IMF, Balance of Payments and International Investment Position Manual,

sixth edition

CAC collective action clause

CARICOM Caribbean Community and Common Market CARTAC Caribbean Regional Technical Assistance Center

CDB Caribbean Development Bank
CET common external tariff
CIT corporate income tax

CLICO Colonial Life Insurance Company

CPI consumer price index

CPIS Coordinated Portfolio Investment Survey
CSME CARICOM Single Market and Economy

CSO Central Statistical Office
EC\$ Eastern Caribbean dollar
ECCB Eastern Caribbean Central Bank
ECCM Eastern Caribbean Common Market
ECCU Eastern Caribbean Currency Union
ECSE Eastern Caribbean Securities Exchange
ECSM Eastern Caribbean Securities Market

ECSRC Eastern Caribbean Securities Regulatory Commission

EM-DAT Emergency Disaster Database
EPA Economic Partnership Arrangement

EU European Union

FATF Financial Action Task Force FDI foreign direct investment FSB Financial Stability Board

FSSA Financial System Stability Assessment

G-7 Group of Seven G-20 Group of 20

GDDS General Data Dissemination System (of the IMF)

GDP gross domestic product

GFSM IMF, Government Finance Statistics Manual

HIV/AIDS human immunodeficiency virus/acquired immunodeficiency syndrome

IADB Inter-American Development Bank

IBCs international banking companies (corporations)

IBM interbank market

#### xviii Abbreviations

IFS IMF, International Financial Statistics
IIP international investment position
ILO International Labor Organization
IRD Inland Revenue Department

ITC information and communications technology

MDG Millennium Development Goal

NPL nonperforming loan
NPV net present value
NSB national statistical bureau
OCA optimal currency area

OECD Organization for Economic Cooperation and Development

OECS Organization of Eastern Caribbean States

OFC offshore financial center

PAYGO pay as you go
PE parastatal entity
PIT personal income tax
PPP public-private partnership

PRGF Poverty Reduction and Growth Facility
PSIP public sector investment program

PWT Penn World Tables

RCA revealed comparative advantage

RDCC Regional Debt Coordinating Committee RGSM Regional Government Securities Market

RSB regional statistical bureau
RTGS real-time gross settlement
SNA System of National Accounts
SPV special purpose vehicle
SRU Single Regulatory Unit

SVAR structural vector autoregression
TIEA Tax Information Exchange Agreement

UN United Nations VfM value for money