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**Statement by Mr. He and Mr. Ou on Eastern Caribbean Currency Union--2007  
Discussion on Common Policies of Member Countries  
(Preliminary)  
Executive Board Meeting 08/11  
February 4, 2008**

We thank staff for the well-written papers and Mr. Fried and Ms. Morgan for their informative Buff. As we agree with the thrust of staff's report, we wish to emphasize the following points.

1. The ECCU countries are commended for their impressive economic performance in recent years. In 2007, the economic growth rate is expected to reach a respectable 5 percent, despite some moderation over the past year. Price stability is well preserved. While a soft-landing after the Cricket World Cup is within reach, the countries must be prepared for downside risks stemming mainly from the slowing world economy, higher energy and food prices, shrinking trade preferences and development assistance flows, and a massive debt burden.
2. We appreciate the authorities' adamant commitment to long-term fiscal sustainability. While cyclical downside risks should be factored into the policy response—which may narrow the room for fiscal consolidation in the short term—substantial efforts to strengthen the fiscal position and debt sustainability should continue. In this regard, we underscore the concrete measures to achieve the ECCU's revised fiscal benchmark and the current tax reform. Establishing a Public Expenditure Review Commission will help forge regional consensus on expenditure priorities and the role and size of government.
3. The fixed exchange rate arrangement has served the economies well with strong commitment to the exchange rate peg and the currency union. While there is no evidence that the exchange rate level is fundamentally misaligned, external competitiveness and current account sustainability remain a concern. In this regard, we would appreciate staff's elaboration on the impact of a slowdown in the U.S. economy—a major source of tourist flow—and whether contingent measures are needed, should the impact be significant.

4. We are pleased the financial sector remains sound and that the authorities are following the FSAP recommendations. We especially appreciate the update from Mr. Fried and Ms. Morgan on the progress in monitoring credit growth, the supervision of non-bank financial institutions, and the on-site inspection of banks. The initial success in developing the money and capital markets is also encouraging.

5. Substantial measures have been taken to address vulnerabilities. In addition to the planned structural reforms in the respective economies, regional cooperation and integration are most helpful. We encourage the ECCU countries to continue to coordinate on tax incentive policies and measures to boost regional transportation—especially airline efficiency. In addition, there is also potential benefit from increased economies of scale with better coordination in regional institutional building, financial supervision and macroeconomic management.

With these comments, we wish the authorities success in their future endeavors.