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**Statement by Mrs. Mañalac and Mr. Moveni 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 concise and well-written set of papers, and Mr. Fried and Ms. Morgan for their informative Buff statement.

The ECCU region has registered a strong macroeconomic performance in 2006 in the face of robust expansion in construction, tourism and financial services activities. Inflation has remained subdued at single digits; the real exchange rate is close to fundamental macroeconomic equilibrium; and the quasi-currency board has delivered much-needed price and external stability to the region over the years. As we broadly concur with the thrust of the staff appraisal, we limit our comments to three important points.

Economic Growth and Development

The ECCU region depends almost entirely on tourism as the main driver of economic growth, and the primary source of foreign exchange earnings and revenues for the government. Because of risks associated with such dependence, we urge the authorities to institute appropriate reforms that would promote diversification and encourage private sector growth and development. As with staff, we consider removing the barriers to starting a business contained in the World Bank's Cost of Doing Business Report, and the creation of a single economic and financial space in the region, as important steps towards achieving this objective.

Fiscal and Debt Issues

While the recent implementation of revenue reforms, particularly the introduction of VAT in a number of ECCU countries, has contributed to increased tax revenue collections, the fiscal positions of the countries in the region have only improved modestly. Like staff, we are concerned about the authorities' grant of fiscal incentives to FDIs, which erode the corporate tax base and distort resource allocations. We urge the authorities to reconsider the widespread use of tax concessions and to establish a regional treaty on tax incentives to reduce divergences and to strengthen the regional investment climate. We also encourage the authorities to implement the needed revenue reforms, including more flexible domestic fuel pricing, to enhance revenue collection.

Meanwhile, public expenditure reforms need to be implemented, with government spending redirected to priority areas that would sustain growth and allow for stronger social safety nets. In this connection, we urge the authorities to implement civil service reform and to prioritize capital and social spending. The recent decision by the authorities to establish a Public Expenditure Commission is a step in the right direction.

To ensure stronger fiscal consolidation, like Mr. Bakker and Mr. Tanasescu, we encourage the authorities to establish annual budget targets that are consistent with the macroeconomic frameworks and the revised ECCU benchmarks.

Monetary, Financial and Banking System

We share staff's view that the fixed exchange rate regime has served the currency union well in terms of price stability by providing a strong monetary anchor over the years. We also concur with staff's analysis that the current account deficits, although projected to remain above their estimated equilibrium level, are sustainable and will be financed by FDIs.

On the financial sector, the authorities are to be commended for maintaining a sound banking system with sufficient levels of liquidity and a high capital adequacy ratio. Nevertheless, we encourage the authorities to be vigilant given the rapid increase in credit growth in recent years. Steps taken to strengthen the prudential regulation and the supervisory framework are welcome but, at the same time, we urge the authorities to bolster the supervision of the expanding nonbank financial sector and to accelerate the implementation of a single regulatory unit among the ECCU countries.

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