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

1. We thank staff for the detailed set of papers and Mr. Fried and Ms. Morgan for their insightful Buff statement.
2. The countries that form the ECCU are in the process of transformation from largely agrarian-based to services-driven (specifically tourism) economies, following the phased removal of EU trade preferences for agricultural products. In this process, 2006 was a year that witnessed the highest GDP growth (6 percent) in 15 years with price increases remaining modest, although some inflationary pressures appeared. The external current account widened, related to construction sector imports. We are pleased to know that the region will continue to grow in 2007 and 2008, although at a lower pace.
3. Supervision of the banking sector has improved and indicators point to a sound financial system. We note that work on further strengthening the supervisory framework is ongoing, including the establishment of a single regulatory unit for the non-bank financial sector. The maintenance of exchange rate and price stability over the years is testimony to the ECCB's sound management of the quasi-currency board arrangement.
4. Going forward, the ECCU faces a number of challenges. The fiscal deficit remains somewhat intractable, despite revenue reforms including the introduction of VAT in several of the islands. Debt-servicing costs absorb a significant portion of recurrent revenues, limiting the authorities' ability to undertake other pressing expenditure needs. The authorities are faced with a needed fiscal adjustment and reducing the public debt, which is currently projected at 101.8 percent of GDP. The authorities have undertaken a number of revenue-enhancing measures, but the call on the public purse driven by a high exposure to natural disasters and the impact of the erosion of trade preferences poses a daunting challenge to sustained fiscal adjustment. We welcome the several strategies proposed by the authorities to address this and the size of the public debt, including the establishment of a Public Expenditure Commission and the request for Fund technical assistance to boost debt management skills. The authorities recognize that data deficiencies are a critical constraint in

effective policy formulation and surveillance and are taking steps to improve data capture. We also urge the authorities to draw on CDB and World Bank expertise to maximize gains from donor-financed PSIP projects.

5. Another challenge is the successful transition from an agriculture-based economy to more broad-based sustainable growth. The region has become increasingly reliant on the tourism industry as an engine of growth, but this sector comes with a number of vulnerabilities, the impact of which has already been experienced by some ECCU territories.

6. Strategies to promote this include an improvement in the business and investment climate as recommended by staff. We support the authorities' initiative to form an OECS Economic Union, which should build economies of scale so that the region can better compete within CARICOM and in the wider world. In addition, the recent implementation of the economic partnership agreement between CARIFORUM (CARICOM and the Dominican Republic) and the EU provides opportunities for increased trade. Finally, we welcome planned structural reforms, particularly increased labor flexibility that should enhance the price competitiveness of the tourism product.

With these remarks, we wish the authorities continued success.