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

We welcome today's regional discussion on ECCU and note once again their merit. Such discussions indeed nourish the bilateral surveillance of the ECCU countries (and vice-versa) and clearly highlight the sectors where a deeper regional coordination would be beneficial.

We were pleased to read the growth performance of the ECCU countries on the recent years. However, these favorable performances have not been built on to significantly reduce the deep fiscal imbalances of the region. Given the exposure of the area to natural disasters, the high vulnerability of the economy to a downward trend in tourism, as well as the pressure of a rapid population aging on public expenses, the high level of public debt in the area leaves no room for adjustments in case of any adverse event. Fiscal consolidation should thus be more ambitious and we agree with the priorities identified by staff in this regard.

We commend the significant steps taken on the revenue side and, in particular, we greatly welcome the move recently made in several ECCU countries towards the introduction of a VAT. Preserving its integrity should now be a priority. At the current stage, concentrated efforts need to be placed on restraining public spending. In this respect, we encourage the authorities to prioritize capital expenditures that are currently financed by debt, in order to ensure that public expenses yield the highest social return. The ECCB Monetary Council's recent decision to establish a Public Expenditure Review Commission is a promising step on this path. Like staff, we also encourage the authorities to translate the ECCB's medium-term fiscal benchmarks into their national fiscal policies.

As highlighted by staff, fiscal consolidation is needed not only to respond to the high level of public debt but also to maintain competitiveness in the fixed exchange rate regime. Given the fierce competition the ECCU countries are facing in the wider Caribbean region, in particular in the tourism sector, increasing competitiveness is indeed necessary. In this regard, we agree

with staff on the need to improve air transportation. Lowering the cost of infrastructure, energy and telecom will also be required, since they rank high in comparison with other countries in the region.

To increase competitiveness, as well as the growth potential of the region, further regional integration is also key. We were thus pleased to read in Mr. Fried and Ms. Morgan's informative Buff statement that the "OECS Economic Union is at the center of the authorities' growth strategy." Significant achievements, such as the already existing common institutions, are praiseworthy and we were pleased to read the strengthened functional cooperation envisaged in several areas, as described in §22 of the staff report. We warmly support the ECCU countries to continue on this path, and, like staff, we encourage the authorities to harmonize the legislative and regulatory frameworks and to liberalize the labor market, which will be instrumental in addressing the issue of skills shortages at the regional level.

Sharing similar economic and institutional structures and being faced with similar challenges, the ECCU countries would also highly benefit from designing a common long-term strategy in order to ensure the transition from agriculture to a service economy. Adopting a cooperative approach in the tourism sector for example, be it for the definition of niche strategy, for specialized training, or also for the transport network, should be at the core of the countries' overall strategy.

Having said that, we would welcome *staff's comments on the following points:*

- Staff mentions in the report that the EU and Caricom countries signed a new Economic Partnership Agreement (EPA), the first between the EU and any ACP region, which came into force on January 1st, 2008. *Could staff give further details on the anticipated impact this agreement will have on the ECCU countries?*
- Remittances also play a large role in financing the current account deficits in the region and we took note of the initiative to leverage these flows in Saint Vincent and the Grenadines. *We would welcome an update from staff on the size and role played by remittances in the ECCU and further details on Saint Vincent and the Grenadines' initiative.* While we are aware of the data availability constraints, we encourage staff to do their best to closely follow this subject.
- We are looking forward to the FAD Poverty and Social Impact Analysis, assessing the impact of preference erosion on poverty in the Windward Islands. *We would also be very interested in an assessment of the Caribbean Basin Initiative and the impact of the PetroCaribe Agreement.*