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**Statement by Mr. Gakunu and Mr. Nintunze 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 a well written set of papers and welcome the opportunity to reflect on the ECCU regional surveillance. We commend the ECCU authorities for the continued robust economic performance over the recent years, despite the frequent natural disasters and other exogenous shocks. Real GDP continued to grow at a robust pace in recent years, with tourism, construction and financial services being the main engine. The ECCB's prudent monetary policy and the exchange rate peg have been appropriate in supporting low inflation objective throughout the region. Although the external current account deficit is large, the foreign reserves position has remained at a good level, boosted by sustained FDI inflows. Furthermore, it is an encouraging development that regional social indicators are strong and accordingly, countries in the region rank high on the Human Development Index.
2. Going forward, the outlook, though favorable, is subject to potential downside risks, and there are daunting challenges that the authorities will need to tackle. The region is highly vulnerable to natural disasters, and the erosion of trade preferences, which together with the high dependence on tourism, prompt the need for diversification to sustain high economic growth. In this regard, the authorities need to continue with consolidation of macroeconomic stability and deepening of structural reforms aimed at further improving investment climate. As highlighted in Mr. Fried and Ms. Morgan's insightful Buff statement, the authorities are aware of these risks and challenges and have taken good steps towards fiscal consolidation, strengthening of financial sector, deepening openness and regional integration, reduction of cost of doing business, and capacity building. We are in agreement with the thrust of the staff appraisal and provide comments for emphasis on some of the challenges.
3. The public debt has built up in the region on account of increased capital spending necessary to upgrade productivity-enhancing and priority social infrastructure critical in raising growth potential. The authorities' commitment to fiscal sustainability is welcome

given its importance in supporting the currency peg. We commend them for the strong revenue measures implemented in many ECCU countries, that have contributed to improving revenue collection substantially. These include introduction of VAT and other reforms aimed at broadening the tax base and strengthening of tax administration. We observe also that strong measures are underway for expenditure restructuring including the planned establishment of a Public Expenditure Commission to facilitate this process, as well as the adoption of a medium-term framework of fiscal benchmarks.

4. We observe that the financial system in the ECCU region remains stable with healthy banks and limited inter-bank exposures, and the authorities have taken advantage of the FSAP recommendations to improve the regulatory framework substantially. Going forward, risks remain and we welcome the authorities' commitment to continue modernizing and strengthening the prudential regulatory environment, which will contribute to strengthening the ECCU banks' resilience to shocks and enhancing investors confidence in the union and its currency.

5. Sustaining high economic growth in the ECCU requires diversification of the sources of production and exports. This objective calls for deepened structural reforms to improve investment climate and reduce the cost of doing business. In this regard, we join staff in encouraging the authorities to implement the recommendations of the World Bank's 2008 Doing Business Report. We see merit in advancing the regional integration agenda which will boost the growth potential in member countries, while supporting capacity building to facilitate the implementation of the reform agenda.

6. We wish the ECCU authorities success in their reform agenda.