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September 24, 2010

Statement by Mr. Gibbs and Ms. Drummond on Eastern Caribbean Currency Union (Preliminary)
Executive Board Meeting
September 27, 2010

We thank staff for a comprehensive and timely paper, and Messrs Hockin and Rollo for their helpful buff statement. The challenges facing the Eastern Caribbean Currency Union (ECCU) are considerable, and the risks appear largely on the downside. Given these enhanced vulnerabilities, we strongly welcome the Fund's plans to intensify its engagement with the ECCU.

We agree with staff's analysis, and make the following points for emphasis.

In particular we agree with staff that ongoing weaknesses in the financial system pose risks to the currency union. It should therefore be a priority to strengthen regulation and supervision, and to improve crisis preparedness and bank resolution mechanisms.

But it is clear that financial sector stability is closely linked to the fiscal and debt sustainability of member states. These linkages underscore the need for concerted action on fiscal policy across all ECCU member states. We note that some members have already taken difficult decisions, and are implementing challenging reforms under the auspices of Fund-supported programmes. However, others have made far less progress. We urge the relevant authorities to act swiftly, as we agree with staff that unless action is universal, the currency union will remain at risk.

The main challenge for ECCU members is fiscal consolidation. Given the need for consistent fiscal policies across all member countries we welcome that the Monetary Council is to consider the establishment of revised fiscal targets across its membership which focus on immediately observable targets for the fiscal balance, rather than longer term aspiration targets linked to levels of public debt. We also welcome staff's offer to provide analysis and technical assistance to underpin such targets. Clearly implementation of such targets, and compliance with them, will be essential. We note that the Council was to meet this month.

Can staff provide any update?

We note the tension between the need to bring sovereign debt to sustainable levels, and to protect the integrity of the indigenous banks. We particularly welcome the Fund's engagement on this issue. Whilst it is clear that there is action required on many fronts, *we would welcome comments on the optimal sequencing of reform efforts, and guidance on where development partners may most usefully engage their efforts and resources.*

Given the persistent fragilities of the financial sector across ECCU members, we note the high risk of some sort of financial crisis across the wider region. Can staff expand upon possible spillovers were a crisis to occur? Which countries would likely be most affected, and on what scale?

We also note the high exposure of pension and social security funds to public debt. We urge that due attention be given to ensuring that the poor and vulnerable are protected in policy design and implementation.

Finally, we commend all members of ECCU for having successfully concluded the required twelve Tax Information Exchange Agreements, allowing them to be removed from the OECD gray list.