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September 24, 2010

**Statement by Mr. Stein and Mr. Dahlhaus on Eastern Caribbean Currency Union
(Preliminary)
Executive Board Meeting
September 27, 2010**

We thank staff for their thorough analysis of the challenges facing the ECCU as well as Messrs. Hockin and Rolle for their informative buff statement.

The region has been hit particular hard by the crisis, requiring ambitious measures from all ECCU members to maintain trust in the currency union. Fiscal discipline as well as prompt crisis prevention measures in the banking sector in each country appears crucial in this regard. We are reassured by Messrs. Hockin and Rolle on the authorities' commitment to implement comprehensive programs to stabilize the real and financial sector. Pushing forward with a regional framework to enhance fiscal discipline as well as improved regional cooperation in banking sector supervision and regulation would facilitate the implementation of important policy measures at the level of the individual members' economies. Given our broad agreement with the staff's recommendations, we would like to focus our comments on staff's proposals for further enhancing Fund cooperation with the ECCU in the future.

While we agree with the principle expressed by staff in para 42 that "lending into a regional pool is not an option" according to the Articles of Agreement, staff's statement that "lending to all ECCU countries concurrently would help fostering policy coordination and strengthen the currency union" (same para 42) should be further clarified. We believe that the improvement of policy coordination should foremost be built on the authorities' resolve for further economic and political integration. The Fund's support is important to address key adjustment needs, yet Fund financial assistance cannot serve as a substitute for the necessary institutional strengthening of the currency union. We believe that financial assistance for a regional "Stabilisation Fund for Indigenous Banks" (para 42) is in the fiscal responsibility of the ECCU member countries.

We support staff's suggestion that members of the ECCU should keep SDR allocations as a

shared liquidity buffer if they feel that the liquidity buffer of the ECCB should be enlarged. Yet, we question if by capitalising BAICO (footnote 16, page 17) the authorities make prudent use of their SDR allocations. *Moreover, we would welcome further elaborations from staff on how a “creative partnership” (para 43) between the Fund and ECCU members could look like. In particular, it is not clear to us what is meant by taking into account “the regional dimension of the ECCU into possible future Fund arrangements”. Staff clarifications are welcome.*

In conclusion, we agree that paying due regard to regional aspects in program design and TA, and exercising close regional surveillance in the context of the “common policies” discussion is no doubt warranted. Yet, some of the proposals in paragraph 42 and 43 seem to go much further than that. In our view, the staff report on the 2010 discussion of Common Policies of the ECCU members is not the appropriate occasion to discuss nor pre-empt such far-reaching Fund policy proposals.