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September 24, 2010

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

We thank staff for interesting and well-written report and Messrs. Hockin and Rolle for their informative Buff statement.

Staff sees a double-dip recession in the United States as a major factor of "considerable downside risks" for the ECCU's growth outlook. However, the recent WEO puts the probability of such a double dip at a very low level. *Staff comments are welcome*

The whole Caribbean region, including the ECCU countries, has been hit hard by the global economic downturn, primarily through lower tourism receipts and remittances. However, it appears that the union's weakness is aggravated by fiscal slippages and a vulnerable banking sector, marked by repercussions from the collapse of the CL Financial Group, and low provisioning levels. Regrettably, the declining public sector debt path was interrupted in 2009 and the debt level returned to over 100 percent of GDP. The high debt level threatens the very base of the currency union. At the same time, we note the striking differences among individual member countries with respect to fiscal performance as well as the banks' exposure to the public sector.

The stability of the ECCU would clearly benefit from higher fiscal discipline. In this regard, we fully support the staff's call for an appropriate institutional set-up to enhance fiscal policy coordination. A credible fiscal rule at the ECCU level could facilitate the adjustment path needed to achieve the ambitious public debt reduction target and is crucial to maintaining the union's coherence. The authorities' agreement on the need to adopt primary surplus targets is commendable in this respect. However, we note that, given the wide divergence of fiscal imbalances, the required fiscal adjustment varies significantly. In view of the current revenue/GDP ratios, we agree that the focus of the adjustment strategy should be on the expenditure side.

The progress in the resolution of BAICO and CLICO has been disappointing and they continue to put a major drag on the grouping's financial sector. In this regard, we join the staff's call on the authorities to step up their efforts towards a clear regional solution.

We support the renewed ambition of the ECCU countries to strengthen integration efforts and encourage the authorities to continue the efforts to address existing impediments for private business and investment.