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GRAY/10/3786

September 24, 2010

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

1. While the unified currency has been an anchor of stability for the six Eastern Caribbean Currency Union (ECCU) countries, the global economic downturn has exposed fiscal and financial sector vulnerabilities which may threaten the credibility of the peg. Yet we are encouraged that the authorities of the member countries are seriously addressing these risks through concerted efforts and firm commitments, as highlighted in Messrs. Hockin and Rolle's helpful buff statement.
2. We note that the authorities are in broad agreement with the thrust of the staff appraisal. Since we join in as well, we limit our comments to the following for emphasis:
 - On the fiscal front, we are heartened by the authorities' agreement to adopt fiscal targets which would provide a credible framework towards consolidation. We also support concerted measures which would contain current expenditure, prioritizing public investment spending, and enhancing expenditure efficiency. Yet the challenges of implementation remain daunting, given the stark differences in individual countries' stock of debt. *Given the uneven pace needed for fiscal adjustments, what are staff's view of the common monetary policy going forward?*
 - On financial sector stability, we urge a speedy resolution of weak banks to restore confidence in the banking sector and to limit associated fiscal costs, which could derail the consolidation process. In light of tightened liquidity conditions in the ECCU banking system, we would like to point out the considerable risks of liquidity and solvency that could affect the fiscal and debt sustainability and eventually lead to an adverse downward spiral. These risks indicate that the authorities' determination to take prompt and decisive actions to deal with weak banks is critical. *While we note that crisis preparedness and financial safety net are being put in place to safeguard*

financial system stability, we are wondering how the authorities would raise the necessary capital to strengthen their bank resolution strategy, as mounting problems in banking sector are likely. Staff further comments would be welcome.

- In the medium-term, enhancing the regulatory and supervisory framework for both banks and non-banks is key, hence we support maintaining the provision of Fund technical assistance to the ECCU member countries.