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

We thank staff for their comprehensive reports and Messrs. Hockin and Rolle for their insightful buff statement. We note that the Eastern Caribbean Currency Union (ECCU) region continues to suffer the adverse effects of the global economic slowdown and the region's vulnerabilities have heightened. Regional growth output plunged as a result of the collapse of the tourism industry - the mainstay of the Caribbean economies over the years - and the reduction in FDI-financed construction activities. The worsening fiscal imbalances, unsustainably high and rising regional public debt levels and the increased financial sector pressures threaten macroeconomic stability and the credibility of the currency board arrangement. The region's external position continues to be unfavorable as a result of declines in tourism receipts, remittances and foreign direct investment.

Prospects for economic recovery are expected to hinge on developments in the global economic environment and their effect on tourism demand and private capital flows. Macroeconomic management, with an elevated emphasis on fiscal policy, needs to be strengthened in order to restore stability and to sustain the regional exchange rate arrangement.

Strong fiscal consolidation is critical to facilitate debt reduction to more sustainable levels, reduce the risks to the banking sector posed by high exposure to the public sector and aid external stability. We commend the countries that have already started implementing ambitious fiscal policy measures which aim at primary surpluses consistent with the ECCU debt-to-GDP target of 60 percent by 2020 and we encourage the rest of the countries to also do the same. While we agree that implementing measures to improve revenue performance is important, we encourage the authorities to concentrate their fiscal consolidation efforts more on containing expenditure and enhancing the effectiveness and efficiency of spending through improvements in pubic expenditure management. Further strengthening of the debt management capacity should also continue to be a priority.

Greater fiscal policy coordination is important to sustain the currency union and to maintain policy consistency with the region's currency board arrangement. The authorities are therefore encouraged to develop institutional arrangements for fiscal consolidation.

The high bank exposures to the public sector pose significant credit and liquidity risks, while the possible government payment capacity problems could also precipitate solvency concerns. Thus, the authorities need to improve their fiscal policies and change their financing models to reduce dependence on the banking system in order to safeguard the stability of the financial system. The intensification of risks to the financial sector as a result of the slow economic recovery also calls for stronger regulation and supervision of the sector. We welcome the authorities' efforts to closely monitor liquidity conditions of banks to allow for prompt detection of problems and to strengthen the framework for crisis management. We encourage them to expedite their review of options for the resolution of weak banks. The authorities are encouraged to continue to strengthen the supervisory framework for both bank and non-bank financial institutions. In this regard, we urge them to complete the formation of Single Regulatory Units for non-bank financial institutions in the remaining countries and to make progress in enacting or harmonizing supporting legislation in order to improve the legal and regulatory framework of these institutions.

We wish the authorities success in their future endeavors.