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

We thank staff for the well-written and focused report as well as Mr. Hockin and Mr. Rolle for their informative Buff statement.

The Eastern Caribbean Currency Union (ECCU), comprised of eight small economies, highly dependent on tourism and vulnerable to external shocks, has been hit hard by the global crisis in 2009. Growth forecasts remain weak and risks linked to the external economic environment are on the downside. In this context, the main challenges remain to find an effective way to coordinate fiscal policy, reduce public debts and face financial sector's vulnerabilities. As we broadly share the staff's appraisal and recommendations, we will focus on a few key issues.

Inadequate progress in fiscal consolidation in recent years and the high level of public debt leave no room to maneuver for countercyclical policies. Furthermore, given the large bank exposure to governments, fiscal stance also affects the stability of the banking sector. Substantial fiscal adjustments are therefore necessary to secure fiscal sustainability and to avoid adverse effects on the currency board arrangement. The authorities' decision to identify primary surplus target is a step in the right direction. Nevertheless, a more stringent and binding coordination process should be developed to ensure fiscal discipline.

The increasing vulnerability of the financial sector, due to the deterioration in several prudential indicators as well as to high government exposure, requires further and prompt efforts in strengthening regulation and supervision activities. In particular, in light of the recent increasing pressure from shocks to the banking sector, we urge the authorities to first assess the state of banks and then develop a resolution strategy that is aimed at minimize the fiscal cost trough the collaboration among regional institutions. As for the nonbank financial sector, we expect that a resolution strategy and the fiscal cost sharing regarding BAICO and CLICO are defined without delay.

We share staff's view that lending into a regional pool is not an option at the moment and, most likely, it will not be in the near future. However, the coordination among programs could improve the effectiveness of each country specific program.

With these remarks, we wish the authorities success in their future endeavors.