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September 24, 2010

**Statement by Mr. Jaramillo, Ms. Des Vignes, and Mr. Fachada on Eastern Caribbean
Currency Union
(Preliminary)
Executive Board Meeting
September 27, 2010**

1. We thank staff for their instructive set of documents and Messrs. Hockin and Rolle for their helpful Buff statement.
2. The Eastern Caribbean Currency Union (ECCU) countries are small open economies that are highly vulnerable to exogenous shocks. As such, the global economic and financial crisis has taken a toll on the region. The authorities have designed an Eight Point Stabilization and Growth Program geared towards restoring macroeconomic balance, growth and fiscal stability and strengthening of the financial system.
3. Fiscal and debt sustainability is greatly at risk in the ECCU region and it is imperative that each country undertake the necessary fiscal consolidation to reduce the debt to more sustainable paths. We note that the size of the adjustment will vary across the countries with some having to undertake huge adjustments. In particular in the case of St. Kitts and Nevis, this adjustment will be high, with debt levels close to 200 percent of GDP and fiscal deficit of over 15 percent of GDP in 2010.
4. We urge countries to implement the necessary adjustments needed to bring the debt back to sustainable paths and to preserve the currency union. According to Messrs Hockin and Rolle, the authorities have agreed to develop a comprehensive strategy to reduce each member's debt to GDP ratio to at least 60 percent of GDP by 2020. The intention to set annual primary surplus targets for each member country consistent with the debt reduction objective is welcome. However, we note the political constraints and challenges that some member countries may face. Strengthening the

debt capacity of the region is also critical for reducing the public debt and the contributions by the Eastern Caribbean Central Bank's (ECCB) Debt Management Advisory Unit in this vein is welcome.

5. Expenditure reducing measures will help to effectively reduce the budget deficits across the region and should be accompanied by reforms to enhance the effectiveness of tax administration and public financial management. Spending must be prioritized to restore growth, eliminate waste and safeguard the poor. We therefore welcome the establishment of the Public Expenditure Commission which will focus on a regional approach to enhancing spending efficiencies.
6. Safeguarding the financial sector stability and strengthening the regulatory and supervisory capacity is critical. Recent stress tests on indigenous banks indicate that a number of them could become severely affected. We welcome the initiatives being undertaken by the ECCB to strengthen its framework for contingency and crisis management. The establishment of several groups to enhance surveillance such as the appointment of the Ministerial Sub-committee on Banking, the Recapitalization Committee and Liquidity Watch group are steps in the right direction.
7. The regional approach taken towards resolution of BAICO is welcome. Staff highlighted three principles that should be adhered to with which we agree. We note that measures are being undertaken to strengthen regulation and supervision in the nonbank financial sector, particularly insurance, and we urge the authorities to advance the work in those areas that are still outstanding. We note the constraints with respect to effective supervision of all non-banks and agree with staff that supervision of at least the systemically important credit unions should be undertaken by the ECCB. The signing of the necessary twelve Tax Information Exchange Agreements (TIEAs) by all the ECCU countries, thereby removing them from the OECD grey list, is an important step.