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

The impact of the global crisis on economic growth in the region was severe. Given the existing exchange rate arrangement and limited room for fiscal stimulus, structural economic reforms remain the main instrument to encourage growth. Staff provides recommendations for tourism sector development. In addition, we suggest that greater cooperation and harmonization in the sector can also provide an important impulse for growth.

Experience in other countries with extreme cases of a fixed exchange rate, in dealing with the financial crisis, should be utilized. ECCU countries will have to go through the painful process of budget cuts. Fiscal consolidation efforts should be focused on the expenditure side of the budget. The staff report highlights that several items of the public expenditures, including the wage bill and social security expenses can be rationalized. As a right step towards expenditure rationalization we welcome the establishment of the Public Expenditure Commission.

Coordination of policies between the member countries is important, especially in financial sector supervision and in fiscal consolidation. Several institutions for coordination purposes were already created and some are being created. *We would appreciate staff's comments on what is the main impediment for coordination? Is it the absence of the needed institutions or the existing political constraints?* To contribute to better coordination, we support the idea of taking into account the regional dimension in future fund programs.

Recent developments in the non-banking financial sector showed the need for close supervision of the sector. Member countries are establishing their own single regulatory units. We strongly support the idea of a regional single regulatory unit, which would also require a burden-sharing mechanism.

Risks in a fragile financial sector are triggered by high bank exposure to the public sector. Under the current circumstances, failure of any member country to achieve fiscal consolidation may have a negative impact on neighbors. We are aware that some countries have achieved greater progress in moving towards fiscal and debt sustainability. We call for

immediate action from countries lagging in this direction. We agree with the staff report that, looking forward, domestic banks' exposure to government debt should be reduced, which would require diversification of the investor base for government debt.