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**Statement by Mr. Yambaye and Mrs. Boukpepsi on Eastern Caribbean Currency Union
(Preliminary)
Executive Board Meeting
July 13, 2016**

We thank Messrs. Haley, McGrath and Silston for their informative Buff statement and welcome the comprehensive staff analysis provided in the report.

Since the last review, the Eastern Caribbean Currency Union's (ECCU) recovery, although slow, has continued on a positive trend, but significant vulnerabilities remain as the member economies face high public debt, a fragile banking system, weak external competitiveness as well as high exposure to natural disasters. We note that ECCU's GDP growth in 2015 was helped by low global oil prices, growth in the United States - main trading partner-; improving level of tourists' arrivals and solid inflows from the various Citizenship-by-Investment Programs (CIPs). Inflation fell into negative territory and the current account deficit is estimated to have narrowed reflecting the fall in prices of oil and most food commodities. However, the medium-term prospects for the region are uncertain with risks on the downside stemming, among others, from the potential loss of Correspondent Banking Relationships (CBRs), high volatility of the CIPs revenues and the region exposure to natural disasters.

We encourage the ECCU **authorities to steadily pursue the needed banking, fiscal and structural policy reforms at both national and regional levels for a stronger and sustainable growth.** We broadly concur with staff's policy recommendations.

Further progress in the financial sector and regulations are key to gaining long-term financial stability and sustainability of the region's economic growth. The 3-pronged strategy put in place by the authorities to address the regional banking system fragilities have led to the resolution of the 3 insolvent banks which were under the Eastern Caribbean Central Bank (ECCB) conservatory. The authorities have to be commended for these positive results and we would like to encourage them to complete the resolution of these banks and fully operationalize the Eastern Caribbean Asset Management Company (ECAMC) in order to reinforce the resilience of the banking system. We are pleased to note that the 2016 safeguards assessment of the ECCB has come to broadly positive conclusions and look forward to the implementation of the recommendations as underlined by the authorities.

However, we remain concerned by developments as regards Correspondent Banking Relationships (CBRs). The recent trend of de-risking by international banks poses a threat to the stability of the financial system and to the development and growth of these economies. We, therefore, agree with Messrs. Haley, McGrath and Silston that the Fund should continue to play a leading role in conducting research to better understand the underlying causes and to recommend solutions to resolve this difficult situation.

Continued implementation of fiscal consolidation strategies is critical to restore debt sustainability. While we continue to see merit in the authorities' commitment to meet their targeted 60 percent debt-to-GDP ratio by 2030 and note the improvement of core fiscal positions and the reduction of public debt in some of the member countries, we agree with staff on the need to step up efforts to build fiscal buffers and develop a solid medium-term fiscal adjustment in compliance with the 2015 ECCB Monetary council. Moreover, such measures should enhance the ECCU region's capacity to absorb shocks and to address consequences stemming from their high exposure to natural disasters. It will also be essential to pursue efforts to strengthen Public Financial Management (PFM) including a thoughtful planning and management of CIPs revenues as well as further improvements in managing public sector investment programs (PSIPs) notably in the region's efforts to close the critical infrastructure gaps in transport and energy sectors.

Restoring macroeconomic stability and implementing structural reforms are critical to enhancing competitiveness and supporting growth in the region. In this regard, we would like to commend the ECCU authorities for the measures undertaken to further improve the business environment and reform the energy sector. Additionally, we agree with staff on the need to promote further regional integration, in order to mitigate capacity constraints related to small size, reduce production costs and achieve economies of scale. For instance, actions such as the establishment a single domestic space for tourists are commendable.