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Statement by an IMF Mission on ECCU Policies: Discussions with Dominica

Mr. Paul Cashin, head of an International Monetary Fund (IMF) staff mission to the Eastern Caribbean Currency Union (ECCU) countries, issued the following statement today after the conclusion of the mission:

“An IMF mission is visiting the Eastern Caribbean Currency Union countries during September and October to conduct the Fund’s 2007 discussions on ECCU policies. This mission augments the work of the individual country Article IV consultation discussions and covers the issues that cut across the region. The mission team will visit the six IMF-member countries of the ECCU—Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines—and key regional institutions, including the Caribbean Development Bank, the Eastern Caribbean Central Bank (ECCB), and the Organization of Eastern Caribbean States (OECS). In this context, the IMF mission visited Dominica during September 14–15, 2007.

“The regional discussions will focus on the economic prospects, opportunities, and challenges facing the ECCU. A concluding statement that outlines the mission’s preliminary policy recommendations will be presented in November for consideration by the member countries of the ECCU. A report reflecting these discussions will be prepared subsequently and presented to the IMF’s Executive Board. The IMF reports for [2005](#) and [2006](#) are publicly available.

“Economic activity in the ECCU region was buoyant in 2006, with real GDP growth reaching over 6 percent, the highest in more than 15 years. Activity was driven by construction spending for the 2007 Cricket World Cup (CWC) and a significant expansion in tourism capacity. While inflationary pressures have emerged due to the strong economic activity and higher world oil prices, inflation has remained in the low single digits, anchored by the regional monetary arrangement at the ECCB. Despite higher revenues, fiscal positions deteriorated in 2006 largely due to CWC-related capital spending, and the regional debt ratio remained above 105 percent of GDP.

“The forecast is for a soft landing of the ECCU economy in 2007, but risks are tilted to the downside. While private construction is showing continuing strength, growth is decelerating in the region, reflecting disappointing tourism arrivals, hurricane-damaged agricultural production, and ongoing problems with tourist airlift. Difficulties in U.S. asset markets and global growth could also weaken the outlook in the tourism and construction sectors. Sustaining rapid growth

through reforms to improve the investment climate, including greater labor market flexibility, financial market development, and continuing regional integration will be key to maintaining and further improving living standards in the region.

“Restructuring agreements reached with creditors by Dominica and Grenada have assisted in stabilizing regional debt. Despite these efforts, debt remains at very high levels and large debt servicing burdens in the region hinder greater expenditure on poverty reduction and social programs. Strengthening the currency union will require establishing and meeting annual fiscal targets that can credibly achieve the ECCB’s public debt to GDP target of 60 percent by 2020. Although important reforms to place fiscal balances on a firmer footing are underway in many countries—including through the introduction of value added taxes—improved fiscal positions will require an overhaul of government expenditures, focusing on enhancing efficiency of capital spending and civil service reform.

“Financial sector reforms are proceeding—ECCU member governments have passed the uniform Banking Act and the ECCB has implemented several new prudential guidelines. However, recent rapid expansion in private sector credit could end up in higher non-performing loans if tourism growth does not keep up with expectations or real estate prices decline. There is a need to strengthen the enforcement of the revised regulatory framework for banks, as well as supervision of the nonbank financial sector.

“It is in this context that the mission is discussing policy options with national and regional authorities. In Dominica, the economy is facing difficulties—in particular, the agricultural sector has been hit hard by Hurricane Dean. The authorities are continuing their efforts to introduce reforms and programs to assist the recovery and reduce poverty, while maintaining macroeconomic stability and strengthening growth. The IMF team would like to thank the authorities of Dominica for the constructive discussions held during their visit. In particular, the IMF team met with Acting Prime Minister Matthew Walter, Minister of Education Vince Henderson, senior government officials, and representatives of the Bankers Association. We wish the government and people of Dominica every success in their efforts to achieve sustained rapid growth and social progress.”