

20100309 Eastern Caribbean Central Bank: Communiqué of the 66th Meeting of the ECCB Monetary Council

Source: Eastern Caribbean Central Bank

5 March 2010

The Sixty-sixth meeting of the Monetary Council of the Eastern Caribbean Central Bank (ECCB) was held at the ECCB headquarters in St Kitts and Nevis on 5 March 2010 under the chairmanship of Dr the Honourable Denzil Douglas, Prime Minister and Minister of Finance, St Kitts and Nevis.

Council recognised the presence of the new members. Chief Minister of Anguilla, the Honourable Hubert Hughes was welcomed and congratulated on his recent election victory. Congratulations were also extended to Dr the Honourable Denzil Douglas, Prime Minister of St Kitts and Nevis who returned as Council Member after two years. Council expressed its sincere thanks to those who served in the recent past, namely Dr the Honourable Timothy Harris of St Kitts and Nevis and Mr Victor F. Banks of Anguilla.

Council received the Governor's Report on Monetary and Credit Conditions in accordance with Article 7(2) of the Eastern Caribbean Central Bank Agreement, 1983. The report outlined developments in monetary and credit conditions in the 12 months ended November 2009 and the outlook for the near to medium term, in the context of the global economic slump and financial market turmoil.

Council noted that the impact of the global crisis on the ECCU economies intensified during the period, and for 2009 economic activity, as measured by real GDP, is estimated to have declined by 7.4 per cent. Factors contributing to the decline included a fall in investment in construction-related projects, partly associated with reduced inflows of foreign direct investment, and a sharp decrease in stay-over arrivals. The decline in economic activity also had an adverse impact on central governments' fiscal operations, as reflected in a 7.2 per cent decline in current revenue in the first nine months of 2009.

Although recent data suggest that economic and financial conditions are stabilising in some of the major industrialised economies, the ECCU economies are expected to experience a slower recovery from the global downturn. With the significant reliance on tourism receipts, remittances and foreign direct investment inflows, the pace of recovery will depend heavily on a turnaround in employment and consumption, particularly in the USA, where it is expected to lag behind the rest of the economy. Accordingly, economic activity in the ECCU is projected to decline by a further 2.3 per cent in 2010.

1.0 Monetary and Credit Conditions

Council noted the impact of the downturn on the monetary and credit aggregates in the ECCU and in particular, the following:

- A declining trend in credit growth consistent with the contraction in economic activity over the review period;
- Declines in commercial bank nominal lending rates but increases in the real rates, attributable to the lower rate of inflation which was observed at the ECCU level during the period;
- A relatively strong Central Bank net foreign asset position, which was consistent with the requirements for maintaining the currency peg, although a slight decline in the backing ratio was observed.

2.0 Monetary Policy Assessment

Council agreed that in the current environment of declining tourism-related and foreign direct investment inflows, lower liquidity levels and a lack of fiscal space on the part of member governments, the key policy imperative is to protect the stability of the financial system and maintain the credibility of the currency to support the economic recovery when it starts.

Council accordingly directed that the Central Bank's administered interest rates be maintained at their current levels, namely:

- (i) The Central Bank's discount rate at 6.5 per cent; and
- (ii) The minimum rate of interest on savings deposits at 3.0 per cent.

3.0 Financial Sector Stability

In recognition of the current risks to the stability of the ECCU financial system, including the ongoing challenges facing the insurance sector, Council agreed to recommend that member governments:

- (i) Enhance the ability of the Bank to provide liquidity support to the commercial banks experiencing a tightening of liquidity.
- (ii) Conceptualise and implement fiscal and debt sustainability targets to support financial sector stability.

4.0 Economic Growth and Transformation

Council noted that sustained economic growth at a level higher than that achieved in the recent past was necessary in order to deal with the vulnerabilities to external shocks and domestic developments, absorb the unemployed and new entrants to the labour force, reduce the level of poverty, and maintain the Human Development Indices.

Council, recognising that a dynamic and growth-oriented private sector was critical to the economic recovery and transformation of the ECCU member countries, agreed to recommend to member governments support for the work being done by the ECCB in close association with the OECS Secretariat and in particular, the Export Development Unit to:

- a) Create an enabling business environment;
- b) Facilitate private sector and entrepreneurial development;
- c) Identify and support productive sector activities which have both a comparative and competitive advantage in the export market;
- d) Accelerate the provision of business facilitatory institutions and instruments such as Bureaus of Standards, technical and business skills training and the appropriate fiscal and other incentives; and
- e) Facilitate and accelerate the rationalisation of the development and investment financial architecture to improve access to finance for new and existing enterprises.

5.0 Reports from Ministerial Sub-committees of the Monetary Council

Council noted the report from the Ministerial Sub-committee on Insurance and ratified the decisions put forward with respect to the approach to be taken in the resolution of the issues in the insurance sector in the ECCU. Council noted that media releases would be made simultaneously in member countries and statements made in the respective parliaments on the progress to date.

Council also noted the report from the Ministerial Sub-committee on the Offshore Sector and in particular the developments with respect to the Tax Information Exchange Agreements (TIEAs). Council noted that all member countries are likely to meet the 31 March 2010 deadline for signing of the TIEAs with OECD countries. However, the key issue surrounds the blacklisting by France of OECS countries (excluding Antigua and Barbuda). Council agreed that member governments should make every effort to meet the 31 March 2010 deadline.

Council considered the advantages which are likely from membership in the OECD Global Forum which provides the opportunity for member countries to be involved in the development and maintenance of guidelines to facilitate transparency and tax information exchange on a global scale. Council supported the recommendation that the OECS Secretariat join the Global Forum as an observer or in some other associated capacity.

Council noted the report from the Ministerial Sub-committee on Cooperatives and agreed to urge member governments to expedite the passage of the Cooperatives Bill.

6.0 Enhanced Regulatory Framework

Council noted the update on the enhanced regulatory framework and in particular that:

- The ECCB continues to facilitate upgrades to the various pieces of legislation that govern the different classes of financial institutions operating in the ECCU.
- The Monetary Council, the ECCB Board of Directors, the Single Regulatory Units and other regulators have undertaken an enhanced supervisory role with ongoing and more frequent consultations amongst the parties; and that
- The consultative relationship between the ECCB and other stakeholders has been significantly

enhanced.

Council further noted the need for guiding principles to address issues of accountability, transparency and efficiency, as well as regular information exchange among the regulatory bodies, to make the framework fully operational and, to that end, administrative protocols for the framework were being finalised.

7.0 ECCU Eight Point Stabilisation and Growth Programme

Council noted that the Eight Point Stabilisation and Growth Programme was signed by Heads of Government of the ECCU in December 2009 and circulated to the regional and international community.

Council noted the Action Plan for implementing the Eight Point Stabilisation and Growth Programme which was based on the recommendations from the Boot Camp held to develop a coherent and internally consistent strategy to address the effects of the global financial and economic crisis on the ECCU member countries.

Council noted in particular the action being taken with respect to the following components by the various stakeholders at the national and regional levels:

- Fiscal Reform Programmes
- Debt Management Programmes
- Public Sector Investment Programmes
- Social Safety Net Programmes

Council further noted the proposal for transforming the Statistics Departments into autonomous bodies which was intended to improve the quality of statistics in the region. In view of the critical importance of statistics to the policy making process, particularly at this time, Council agreed to give urgent attention to this matter.

Council reaffirmed its commitment to the Eight Point Stabilisation and Growth Programme and agreed that it should be firmly rooted in the deliberations of the Executive and Legislature of the ECCU member governments.

8.0 Dates and Venues of the next Council Meetings

Council approved the following dates and venues for the period 2010/2011 in accordance with the agreement at the 58th Monetary Council meeting to establish fixed dates for convening the Monetary Council meetings.

Date and Venue:

16 July 2010 - Grenada

22 October 2010 - St Kitts and Nevis

11 February 2011 - St Kitts and Nevis

9.0 ECSRC MATTERS

Pursuant to Article 26 of the Eastern Caribbean Securities Regulatory Commission Agreement, Council approved the Work Programme and Budget of the Eastern Caribbean Securities Regulatory Commission for the period 1 April 2010 – 31 March 2011.

Council noted the two vacant positions on the Commission. Accordingly, pursuant to the requirements of Articles 12 and 13 of the Eastern Caribbean Securities Regulatory Commission Agreement, the Council appointed the following:

- Dr Vincent Richards as representative of the participating governments;
- Mrs Lucia Livingston Andall to represent the private sector.

Council also appointed Mr Errol Allen as Chairman and Mr Arthur Thomas as Deputy Chairman.

