

COMMUNIQUÉ OF THE
68th MEETING OF THE MONETARY COUNCIL
OF THE EASTERN CARIBBEAN CENTRAL BANK
22 OCTOBER 2010



The sixty-eighth Meeting of the Monetary Council of the Eastern Caribbean Central Bank (ECCB) was held on 22 October 2010, under the chairmanship of the Honourable Nazim Burke, Minister for Finance, Grenada.

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 monetary and credit conditions in the ECCU over the 12 months ended June 2010 and the outlook for the near to medium term, in the context of global economic and financial developments.

Council noted that the macroeconomic and financial framework of the ECCU was greatly challenged by the global financial and economic crisis which resulted in a 7.3 per cent contraction in output in the ECCU in 2009 and a further 2.8 per cent in the first half of 2010. The impact was particularly severe in the financial sector and on the fiscal accounts. In the financial sector tight liquidity conditions, and constrained credit growth persisted while the adverse fiscal circumstances of member governments have limited the scope for implementation of counter-cyclical policies to cushion the fall in domestic income.

Council further noted that the global economy has started a tenuous recovery but that the pace has slowed and remains shrouded in uncertainty, particularly in the major advanced economies which constitute the ECCU's main trading partners. The weak performance in the external sector is expected to dampen the ECCU's growth prospects in the short-term. In particular, tourist arrivals and private capital inflows are projected to remain below pre-crisis levels for some time. Accordingly, economic activity in the ECCU is projected to decline by a further

2.0 percent in 2010 before undergoing a slow recovery in 2011, when the domestic economy is forecast to grow by 1.1 per cent.

1.0 Monetary and Credit Conditions

Council noted the monetary and credit conditions which were evident in the ECCU during the year to June 2010 and in particular the following:

- Declines in commercial bank nominal lending and deposit rates but increases in the real rates due to the lower level of inflation.
- Continued slow credit growth consistent with the contraction in economic activity over the review period.
- A marginal improvement in liquidity in the banking system, though the distribution across the spectrum of banks remains uneven.
- An increase in the foreign reserves of the Central Bank although at a slower rate due to the impact of the global financial and economic crisis, but remaining consistent with the requirements for maintaining the currency peg.
- A slight decline in the ratio of gross foreign assets to demand liabilities, (the backing ratio for the EC dollar), to 94.8 per cent at the end of June 2010, but currently at 95.2 per cent which is well above the statutory level of 60 per cent and the operational target of 80 per cent. This decline was largely attributed to the deceleration in the growth of foreign reserves and an expansion of domestic liabilities.

2.0 Monetary Policy Assessment

Council agreed that in the current environment, the focus of monetary policy must be on protecting the stability of the financial system and maintaining the credibility of the currency to support an economic recovery. Therefore, policies geared towards alleviating macroeconomic and financial system stresses must also take into account the need to maintain sufficient foreign reserves to keep the currency peg credible. In the present circumstances changes in the Central Bank's administered interest rates – the

Central Bank discount rate and the minimum savings deposit rate – are not likely to be effective in addressing the challenges in the financial system or the real sector.

Accordingly, Council directed that the Central Bank maintain:

- (i) the minimum savings deposit rate at 3.0 per cent; and
- (ii) the Central Bank's discount rate at 6.5 per cent.

3.0 Financial Sector Stability

Council was updated on recent developments in the ECCU financial system including ongoing challenges facing the non-bank financial sector. In recognition of the Bank's mandate to preserve the soundness of the financial system, Council noted the Bank's rigorous programme for close monitoring of the region's commercial banks and the steps being taken to address the liquidity issues, including the planned establishment of a repo market. Council reiterated its support for all efforts towards the consolidation of the indigenous banking sector.

Council noted the steps taken to date towards the operationalisation of the Resolution Trust Company (RTC), the establishment of which was approved at the last meeting of the Council, with the mandate to restructure and recapitalise financial institutions and manage troubled assets. Council approved the level of capitalisation of the RTC, noting that discussions were underway with the World Bank, the International Finance Corporation (IFC) and other parties with respect to the provision of funding and technical assistance for the operationalisation of the company. Council further approved domestic financing for the capitalization of the RTC from the member governments' Fiscal Reserve Tranche II held at the Central Bank.

Council agreed to encourage member governments to communicate their vision of the structure of the financial system in light of the weaknesses highlighted by the global and regional economic and financial crisis, and to craft legislation that would create a single financial space in the ECCU.

4.0 Reports from Ministerial Sub-Committees of the Monetary Council

Council received a report from Dr the Honourable Denzil Douglas, Chairperson of the Ministerial Sub-Committee on Banking. Council took note of the main issues deliberated at the meetings of the Sub-Committee and agreed to the recommendations put forward by the Sub-Committee aimed at addressing matters which could affect the stability of the financial system. The Council also noted the Sub-Committee's view on the longer term goal of restructuring the financial system, with the ultimate aim being a more concentrated banking sector.

The Council noted that the sale of certain assets and liabilities of the Bank of Antigua Ltd to the Eastern Caribbean Amalgamated Bank (ECAB) had been concluded. Council further noted that the ECAB had successfully commenced operations on 18 October 2010.

Council was informed by Dr the Honourable Ralph Gonsalves, Council member for St Vincent and the Grenadines, of developments with respect to the National Commercial Bank (SVG). Council noted that fifty-one percent of the shares of the bank were acquired by the East Caribbean Financial Holdings, a company registered in Saint Lucia. Council further noted that forty-nine per cent was retained by the Vincentian government with the intention of divesting twenty-nine per cent through sale to the public of 20 per cent, 5 percent to the National Insurance System, and 4 percent to the staff of the bank. The Council welcomed this development and noted that this was in keeping with point seven of the ECCU Eight Point Stabilisation and Growth Programme.

Council received a report from the Ministerial Sub-Committee on Insurance. Council deliberated on the approaches put forward by the Sub-Committee for resolving the BAICO/CLICO situation and developments on the wider regional front. Council agreed to the recommendations put forward by the Sub-Committee for addressing the way forward on outstanding matters related to the BAICO and CLICO situations. Council

noted that a meeting was to take place shortly with the Trinidadian authorities to discuss the insurance issues.

Council also noted the report from the Honourable Harold Lovell, Chairperson of the Ministerial Sub-Committee on International Financial Services who provided an update on the status of the Tax Information and Exchange Agreements (TIEAs). Council was informed that all member countries had complied with the OECD requirements. The Sub-Committee recommended that at the ministerial level it was now necessary to have discussions on certain policy issues in relation to the international financial services sector. Council agreed that in moving forward some focus should be given to the Canada/CARICOM Financial Services Agreement and that a cost-benefit analysis of the ECCU's involvement should be undertaken.

5.0 Update on the ECCU Eight Point Stabilisation and Growth Programme

Council received a status report on the implementation of the Eight Point Stabilisation and Growth Programme which was adopted by member countries to address the effects of the global financial and economic crisis. Council noted in particular that much work had been done by member governments towards the establishment of fiscal targets based on the countries' financial programming frameworks. To facilitate the implementation of the fiscal targets a Boot Camp of ECCU technical officers is scheduled for November 2010 which would focus on the monitoring and reporting processes for the fiscal targets.

Council also noted that the inaugural meeting of the Public Expenditure Commission, established by the Monetary Council to investigate and make recommendations on appropriate ways of rationalizing the form and functions of public sector expenditure in the member countries, was held on 03 September 2010. At that meeting the Commission established a programme for the completion of its work.

On a related matter, Council noted the assistance provided by the World Bank to the government of Grenada in conducting a human resource audit. Council agreed that such audits were critical to the member countries as they sought to pursue public sector modernisation.

Council was heartened by the progress made to date on all elements of the Eight Point Programme and pledged to continue their efforts at coordinating the implementation.

6.0 Statistical Developments

Council recognised that as the ECCU countries moved closer towards the operationalisation of the Economic Union, the issue of a common statistical framework to generate comparable data for member countries was critical. Accordingly, Council was updated on the developments to date in this area and noted that the rebasing exercise for the national accounts and the consumer price indices were completed in the member countries. Council noted that the new series for both sets of statistics would now be more relevant and accurate as they were calculated using updated base years, improved methodologies and new data sources.

Following discussion on the launching of the rebased series, Council agreed to a regional release for the member countries via video conferencing facilities to be followed by national releases. Council however noted the advanced stage of preparation for the launch in Grenada and agreed that Grenada would proceed as planned. An invitation was extended to the statistical officers of member countries to attend.

7.0 Debt Management in the ECCU

Council deliberated on a working paper which provided an analysis of the fiscal and debt developments in the ECCU over the last five years and the various initiatives which were undertaken over that period. Council was apprised of the status of the current programmes underway for strengthening debt management in the region and the various constraints in implementing them.

Council agreed to encourage member governments to support the opportunities for improving debt management in the ECCU and in particular:

- (a) To ensure appropriate staffing for the Debt Units;
- (b) To collaborate on reforms from the Debt Management Performance Assessments; and
- (c) To actively pursue the proposed debt restructuring options.

Council underscored the importance of the growth/debt nexus and endorsed the establishment of a task force to investigate this relationship in the context of the currency union, with a view to making recommendations to the member governments.

8.0 Appointment to the ECCB Board of Directors

In accordance with Article 9(1) of the ECCB Agreement 1983, Council approved the appointment of Mrs Lindorna Brade, Budget Director, Ministry of Finance, Montserrat, to the Eastern Caribbean Central Bank Board of Directors for the period 10 August 2010 to 10 August 2013.

9.0 Date of the next meeting

Council agreed that the 69th Meeting of the Monetary Council would be held on Friday, 11 February 2011.

ATTENDANCE

Council members attending the meeting were:

- Honourable Hubert Hughes, Minister for Finance, Anguilla
- Honourable Harold Lovell, Minister for Finance, Antigua and Barbuda
- Honourable Nazim Burke, Minister for Finance, Grenada
- Honourable Reuben Meade, Chief Minister and Minister for Finance, Montserrat
- Dr the Honourable Denzil L. Douglas, Prime Minister and Minister for Finance, St Kitts and Nevis
- Honourable Stephenson King, Prime Minister and Minister for Finance, Saint Lucia

- Dr the Honourable Ralph Gonsalves, Prime Minister and Minister for Finance , St Vincent and the Grenadines
- Mrs Rosamund Edwards, Financial Secretary, Commonwealth of Dominica (Alternate Member)

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