

**COMMUNIQUÉ OF THE**  
**67<sup>th</sup> MEETING OF THE MONETARY COUNCIL**  
**OF THE EASTERN CARIBBEAN CENTRAL BANK**  
**GRENADA**  
**16 JULY 2010**



The Monetary Council of the Eastern Caribbean Central Bank (ECCB) held its 67<sup>th</sup> meeting at the Grand Beach Hotel in Grenada on 16 July 2010, under the chairmanship of the Honourable Nazim Burke, Minister for Finance, Grenada.

The meeting was preceded by a Handing-Over ceremony to mark the change in chairmanship from the Honourable Roosevelt Skerrit, Prime Minister and Minister for Finance of the Commonwealth of Dominica, whose tenure of office as chairman had expired. Chairmanship is rotated annually among the eight member countries as dictated by the established protocol of the Monetary Council.

The Eastern Caribbean Central Bank Agreement 1983 mandates that *“the Council shall meet not less than twice each year to receive from the Governor, the Bank’s report on monetary and credit conditions and to provide directives and guidelines on matters of monetary and credit policy to the Bank and for such other purposes as are prescribed under this Agreement”*. Accordingly, Council was apprised of the recent monetary and credit conditions in the Eastern Caribbean Currency Union (ECCU) and this was done against the backdrop of the global economic and financial developments.

Council noted that the economies of the ECCU, being small, open and highly vulnerable to external shocks, suffered a general decline in economic activity brought about by the global crisis, with repercussions being particularly evident in the financial sector and in the government’s fiscal accounts. Real output is estimated to have contracted by 7.3 per cent in 2009 and preliminary data indicate a further contraction of 4.1 per cent in the first quarter of

2010. Council further noted that although recent indicators point to a recovery in the global economy, it is a rather fragile one, and the impact on the economic performance of the currency union is likely to be delayed, as the high level of unemployment and the impairment of wealth, particularly in the USA, are expected to reduce external demand. In particular, tourist arrivals and private capital inflows are projected to remain below the pre-crisis levels in the near-term. Accordingly, the ECCU is expected to under-perform for a second consecutive year with a decline of 2.3 percent projected for 2010.

### **1.0 Monetary and Credit Conditions**

Council noted the developments during the year to April 2010 in the critical variables which define the monetary and credit conditions in the ECCU and the factors contributing to these developments including the following:

- Total credit expanded by 2.2 per cent over the period following growth of 6.6 percent in the comparable period of 2009 and an average annual growth of 12.2 per cent over the preceding five years. The sharp decline in credit growth was an indication of the tighter credit conditions which were reflected in higher interest rates and increased collateral requirements.
- Liquidity indicators reflected a mild improvement in the ECCU banking system. The slight recovery was however primarily a reflection of increased official and grant flows, as some member countries accessed resources from international financial institutions. Indeed, tight liquidity conditions continued to exist at some banks.
- The Central Bank's foreign reserves increased, although at a slower rate, primarily reflecting the contraction in external resource inflows from foreign direct investment and foreign exchange earnings. The reserves were consistent with the requirements for maintaining the strong currency peg.
- The ratio of gross foreign assets to demand liabilities which represents the backing ratio for the EC dollar fell to 94.6 per cent at the end of April 2010 from 97.1 per cent at the end of April 2009, but was still well above the statutory level of 60 per

## **2.0 Monetary Policy Assessment**

Council agreed that under the existing circumstances, policies must be geared towards protecting the integrity of the financial system and maintaining the credibility of the currency to support the economic recovery when the turnaround comes, which is expected in 2011. In the current environment, changes in the Central Bank's administered interest rates – the central bank discount rate and the minimum savings deposit rate - would not 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 and noted the Bank's challenge during the period of managing the liquidity in the banking system resulting from the declining foreign exchange receipts from tourism, foreign direct investment and remittances from nationals living abroad. Council also noted the increase in non-performing loans in the banking sector which were primarily in the categories of credit extended to households and to the tourism sector.

Council, acknowledging that the non-bank financial sector is an integral part of the ECCU financial system, noted that the stability of this sector had important implications for the state of the financial system. Council noted the difficulties being faced by the ECCU in the insurance sector. Council agreed that member governments

should continue their discussions with the Trinidadian and Barbadian authorities to arrive at a satisfactory solution to the CLICO/BAICO fall-out.

In recognition of the Bank's mandate to preserve the soundness of the financial system, Council agreed that efforts aimed at addressing existing weaknesses in the financial system should be accelerated. In particular, Council supported the establishment and operationalisation of the Resolution Trust Company with the mandate to restructure and recapitalise financial institutions and manage troubled assets.

Council noted the progress to date in the passage of legislation by member governments that would support a regional integrated regulatory and supervisory framework for non-bank financial institutions. Council agreed to redouble their efforts to enact uniform legislation for such institutions and in particular insurance businesses, international financial services and co-operatives.

#### **4.0 Reports from Ministerial Sub-Committees of the Monetary Council**

Council noted the report from Dr the Honourable Ralph Gonsalves, Chairperson of the Ministerial Sub-Committee on Insurance, and ratified the decisions put forward by the Sub-Committee for resolution of the issues arising from developments with respect to BAICO and CLICO. Council agreed to take the necessary steps to expedite the measures recommended by the Sub-Committee.

Council also noted the report from the Honourable Harold Lovell, Chairperson of the Ministerial Sub-Committee on International Financial Services. Council agreed that the ECCU in pursuing international financial services should attempt to engage with international bodies at the highest levels. To this end, Council agreed that member countries should seek membership of the Global Forum.

Council further noted the recent establishment of the Ministerial Sub-Committee on Banking to be chaired by Dr the Honourable Denzil Douglas, Prime Minister of St

Kitts and Nevis with the mandate to lead the restructuring of the banking sector. This Sub-Committee is scheduled to hold its first meeting on Tuesday 20 July 2010.

#### **5.0 Update on the ECCU Eight Point Stabilisation and Growth Programme**

Council received a status report on progress with 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 the actions with respect to the various elements of the programme being undertaken by member governments, the ECCB, the OECS Secretariat and other collaborating regional and international agencies. Council pledged to continue their efforts at coordinating the implementation.

#### **6.0 Debt and Fiscal Issues**

Council acknowledged the implied commitment to fiscal responsibility under the ECCB's fixed exchange rate system, recognising that persistent deficits and the accumulation of large public debts could be detrimental to the arrangement.

Council discussed the debt management programmes of member countries in the context of the support provided by the Canadian International Development Agency (CIDA) to strengthen debt management capabilities in the Currency Union. The Council requested that the Central Bank prepare a working paper on this issue for its consideration. Council stressed that the issue of debt management must be urgently addressed and options for debt restructuring considered in order to relieve the current debt burden.

Council accordingly agreed to expedite the fiscal reform effort as outlined in the first three elements of the ECCU Eight-Point Stabilisation and Growth Programme, by implementing suitably adapted financial programmes; adopting fiscal reform programmes aimed at re-establishing sustainability and supporting domestic demand;

and advancing efforts in respect of debt management as agreed to by the OECS Authority and the ECCB Monetary Council.

Council discussed the establishment of fiscal targets for member governments and agreed to meet on 02 September 2010 to present the targets. Council also agreed that in the interim the technical officers of the Ministries of Finance and the ECCB would collaborate on developing the targets which would be approved through the national approval processes of member countries.

Council recognised that there was still the urgent need to address the increase in government expenditures in order to achieve the required level of savings to facilitate economic development and transformation. Accordingly, Council reviewed and approved the Terms of Reference and the membership of the Public Expenditure Review Commission, the establishment of which was recommended at the Council meeting in February 2008. Council stressed the importance of the work which was to be carried out by the Commission in making recommendations on appropriate ways of rationalising the form and functions of public sector expenditure.

Council members reaffirmed their commitment to the implementation of the fiscal reform programmes within the agreed adjustment time-frame of 2010 – 2012 and agreed to encourage member governments to build the requisite capacity at the national level to effectively execute the programmes.

#### **7.0 Report from the Commission on Pension and Pension Administration Reform**

Council received the report of the Commission on Pension and Pension Administration Reform which was established by the Monetary Council to examine the pension arrangements in the ECCU and to make recommendations for reform.

Council welcomed the report which detailed the existing ECCU pension systems and arrangements; identified their weaknesses and limitations; highlighted the issues and

challenges of pension reform in general and in the ECCU; and provided recommendations and the rationale for a pragmatic national and regional pension structure for the ECCU.

Council agreed that the report, which was a substantive document, would require a detailed review, and accordingly decided that it would be brought back to the Council for a decision on the way forward following that review.

#### **8.0 Appointment and Re-appointment to the ECCB Board of Directors**

In accordance with Article 9(1) and 9(2) of the ECCB Agreement 1983, Council approved the following:

- the appointment of Mrs Kathleen Rogers, Permanent Secretary, Ministry of Finance, Anguilla, to the Eastern Caribbean Central Bank Board of Directors, for the period 3 March 2010 to 31 January 2012, the un-expired term of the former Director.
- the re-appointment of Mr Maurice Edwards, Director General, Ministry of Finance, St Vincent and the Grenadines for the period 19 January 2010 to 18 January 2013.

#### **9.0 Date of the next meeting**

Council agreed that the 68<sup>th</sup> Meeting of the Monetary Council would be held on Friday, 22 October 2010.

#### **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 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, (Alternate Member), Commonwealth of Dominica

**JULY 2010**