

COMMUNIQUÉ OF THE
70th MEETING OF THE MONETARY COUNCIL
OF THE EASTERN CARIBBEAN CENTRAL BANK
MONTSERRAT
15 JULY 2011



The Monetary Council of the Eastern Caribbean Central Bank (ECCB) held its 70th meeting at the Conference Room, Montserrat Cultural Centre in Montserrat on 15 July 2011, under the chairmanship of the Honourable, Reuben Meade, Chief Minister and Minister for Finance, Montserrat.

A handing-over ceremony to mark the change in chairmanship from the Honourable Nazim Burke, Minister for Finance, Grenada, preceded the meeting. Chairmanship is rotated among the eight member countries on an annual basis at the July meeting, as dictated by the established protocol observed by 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) for the twelve months ended March 2011 and the near to medium term prospects in light of the global economic and financial developments.

Council noted that monetary and credit conditions in the currency union continued to be negatively affected by conditions in the real sector which had been less than favourable in recent times. Following a decline of 5.4 per cent in real output in 2009, the ECCU recorded a second consecutive year of negative growth in 2010 when a contraction of 1.8 per cent was recorded. Many sectors including construction, wholesale and retail and financial services continued to decline, albeit at a slower rate than in the previous year. One positive development was a 2.6

percent increase in the hotels and restaurants sector, influenced by a 3.3 per cent rise in stay-over visitors. Available data for the first quarter of 2011 suggest that the mild recovery continued, with a modest increase in activity in the tourism and construction sectors.

Council noted that the divergences in global growth evident in 2010 are expected to continue in 2011 and 2012, with economic activity in the emerging market economies far outpacing that in the advanced economies. This uneven pattern of growth will have important implications for economic activity in the ECCU, given the region's close trading links with the slower growing advanced countries, namely the USA, the UK and Canada. Council also noted that the current elevated global prices for oil, food and other commodities could lead to inflationary pressures, retard the economic recovery in the advanced countries and adversely affect the growth prospects for the ECCU. In these circumstances Council was informed that the ECCU is projected to grow by roughly 2 per cent in 2011 and by 3 per cent in 2012, with modest expansions in the major sectors, particularly, construction, hotels and restaurants, and wholesale and retail trade.

1.0 Monetary and Credit Conditions

Council was updated on developments in the variables which define the monetary and credit conditions in the ECCU during the twelve months ended March 2011 and the factors contributing to these developments. Council accordingly noted the following:

- Deposits in the banking system slowed to a growth rate of 2.4 percent from a rate of 3 percent in the previous year, reflecting the continued weak economic conditions.
- Total credit expanded by 0.3 percent compared with a rate of 2.1 percent in the previous twelve months also consistent with the low level of economic activity and with commercial banks becoming more risk-averse in the current environment of increased credit risk.
- Commercial bank liquidity showed a steady increase during the period as the pace of deposit growth outpaced that of credit expansion.

- Commercial bank lending rates continued to decline as economic activity remained subdued. At the end of March 2011, the weighted average lending rate across the ECCU stood at 9.5 per cent, 0.3 percent lower than the rate at the end of March 2010.
- The Central Bank's net foreign assets position continued to be strong, buoyed by official grant and loan inflows for member governments as inflows from private direct investment and travel receipts continued to be below pre-crisis levels.
- The ratio of gross foreign assets to demand liabilities, which represents the backing ratio for the currency, stood at 95.5 per cent at the end of March 2011, well above the statutory level of 60 per cent and the operational target of 80 per cent.
- Consumer prices continued to rise during the period under review, reflecting higher international prices for oil, food and other commodities.

2.0 Monetary Policy Assessment

Council, taking into account the recent developments and the outlook agreed that, at this time, policies must be geared towards protecting the stability of the financial system and maintaining the credibility of the currency. In the current circumstances the effectiveness of the administered interest rates, that is, the Central Bank's discount rate and the minimum savings rate in influencing domestic economic activity and supporting the recovery was thought to be minimal.

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

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

3.0 Financial Sector Stability

Council was updated on the major financial sector stability challenges and risks facing the ECCU. Council noted that the recent events in the regional and international markets had underscored the importance of a coordinated regional strategy for maintaining financial sector

stability, and a well developed and integrated regulatory framework to handle the complex nature of modern financial institutions, particularly conglomerates. In addition, Council, acknowledging that the non-bank financial sector constitutes a significant part of the ECCU financial system, agreed that the regulatory gaps in this sector needed to be addressed with some urgency.

In recognition of the Bank's mandate to preserve the soundness of the financial system, Council agreed to recommend to member governments support for the actions required to address the immediate risks to financial sector stability including:

- (i) Full operationalisation of the Resolution Trust Corporation (RTC), which was recently established as a majority-owned company of the governments of the ECCU with the following broad purposes:
 - To provide financial assistance to distressed institutions in restoring liquidity and solvency;
 - To mobilize and deploy external technical and managerial support for the restructuring of financial institutions; and
 - To act as a conduit through which the realignment and restructuring of the financial sector in the ECCU will take place.

Council noted that the inaugural meeting of the Board of Directors took place on 08 July 2011.

- (ii) Strengthening of the regulation and supervision of the financial system by:
 - The passage of outstanding financial legislation, including uniform legislation for the non-bank financial sector, and in particular, the Cooperatives Societies Bill and the Insurance Act aimed at reducing the risks associated with those sectors; and

Council agreed that the Central Bank should undertake technical analysis for determining the possibility of establishing a single regulatory body for the insurance sector.

Acknowledging that fiscal and debt sustainability are critical in maintaining financial stability, Council also agreed to recommend to member governments:

- (i) The adoption of an approach to addressing the debt issue which would result in an adjustment to the debt structure and a more manageable debt profile; and
- (ii) Active participation on the Regional Government Securities Market (RGSM) by all member governments in order to achieve cost savings on interest expenses as well as reduce the bunching of debt payments.

4.0 Reports from Ministerial Sub-Committees of the Monetary Council

4.1 Ministerial Sub-Committee on Insurance

Council was updated on developments related to the CLICO/BAICO resolution strategy. In particular, Council noted the actions taken to date, including the sale of the BAICO property portfolio and the launch on 18 May, 2011 of the ECCU/BAICO Health Insurance Support Fund. Work on the sale of the traditional life insurance portfolio was now underway.

Council noted that the ultimate resolution of the BAICO/CLICO issues was dependent on the available funding. Accordingly, Council considered funding options for the resolution programme as well as different compensation scenarios for addressing the financial obligations to policyholders and depositors. Council agreed that given the limited fiscal space of the ECCU member governments at this time, priorities would have to be set with regard to the implementation of the resolution programme.

Council reiterated that the regional approach being taken by the ECCU member countries was critical, but that co-operation from Barbados and Trinidad and Tobago was of utmost importance in finalizing a compensation scheme.

4.2 Ministerial Sub-Committee on Banking

Council noted the report on the Ministerial Sub-Committee on Banking which updated members on the immediate challenges facing the banking sector. Council was apprised of developments related to the operationalisation of the Resolution Trust Corporation. Council also noted that the ECCB was collaborating with

technicians from the IMF, the World Bank and the CDB in exploring various regional options for addressing the issues.

4.3 Ministerial Sub-Committee on Debt

Council was informed that the Ministerial Sub-Committee on Debt held its inaugural meeting on 12 July 2011 and confirmed its Terms of Reference as well as those of the Technical Committee formed to provide advice and technical support to the Ministerial Sub-Committee. Council noted that the Sub-Committee focused on three critical policy issues during its first meeting, namely, the debt situation and its impact on the banking system; a regional approach to debt management and debt restructuring; and the role of the Regional Government Securities Market (RGSM) in debt management.

Council reiterated that given the prevailing economic and financial conditions, debt management and debt restructuring must be pursued aggressively and collectively with institutional arrangements at the political, technical and country levels.

4.4 Ministerial Sub-Committee on Credit Unions

Council was updated on developments in the credit union sector since the last meeting of the Council. Council noted the status of the Revised Cooperatives Societies Bill and agreed to urge those member countries which had not yet done so, to take the necessary actions to bring the legislation into effect. Council further noted that the inaugural meeting of the ECCU Association of Credit Unions took place on 7 July 2011. The association is expected to form a partnership with ECCU member governments to create the context and conditions favourable to the development of the credit union sector.

4.5 Ministerial Sub-Committee on International Financial Services

Council was updated on recent developments in the International Financial Services Sector which focused on the status of the peer reviews which are being

conducted as a requirement of the OECD's Global Forum in assessing whether countries have the adequate legal infrastructure for the exchange of information for tax purposes. Council noted the importance of completing the reviews as the peer review reports become public documents which serve as a guide for doing business internationally.

5.0 Policy Implications of Rising Food and Oil Prices

Council noted the impact of the global commodity price shock, currently underway, on domestic prices and in particular, the increases in the food sub-index and the fuel and light sub-index of the ECCU consumer price index which rose by 4.2 per cent and 8.3 per cent over the period March 2010 to March 2011. Council further noted that because of the importance of these items in basket of goods, the overall Consumer Price Index rose by 3.3 percent over the current review period compared with an increase of 0.9 percent a year earlier.

Council considered the options available to member governments in trying to achieve a balance between fiscal sustainability issues and meeting social welfare objectives and noted the steps being taken by some member governments to mitigate the impact of the rise in prices on domestic consumers.

Being fully cognizant of the fact that ECCU member governments are fiscally constrained, the Monetary Council agreed to recommend that member governments:

- (i) Maintain the pass-through pricing mechanism for petroleum products;
- (ii) Institute measures to enhance productivity within the agricultural sector as a means through which price gains may be passed on to both producers and consumers.

Council agreed that the ECCB should conduct an analysis of LPG pricing in the region to inform a more transparent approach to the implementation of the subsidy on this type of fuel.

6.0 The ECCU Eight Point Stabilisation and Growth Programme

Council considered an implementation strategy for the ECCU Eight Point Stabilisation and Growth Programme which had been agreed to by member governments in response to the protracted negative impact of the global financial and economic crisis on the economies of the ECCU.

Council noted the elements outlined in the implementation strategy including the benchmarks, targets and monitoring indicators as well as the action plan.

Council recommended that Member Governments adopt the proposed strategy for the implementation of the ECCU Eight Point Stabilisation and Growth Programme and aim to integrate it into their national strategies and programmes.

7.0 Publication of Member Governments' Fiscal Targets

As another step towards fiscal transparency and accountability the Council noted that the 2011 annual fiscal targets agreed to by member governments were published on the ECCB's website. Council considered the review and reporting processes for monitoring fiscal developments and agreed to report on the fiscal performance for 2011 relative to the targets at the meeting of the Monetary Council in February 2012.

8.0 Recommendations of the Pension Commission: Update on National Consultations

Council noted the action to date on the Report of the Commission on Pension and Pension Administration Reform which had been established to examine the pension arrangements in the ECCU and to make recommendations for reform. Among the recommendations and in the context of the Economic Union were that:

- There should be as much standardization of plans as possible within the jurisdiction and across the region and between plan types.
- There must be immediate vesting of benefits and full portability of plans to reflect the spirit of free movement of labour.

- There should be a move towards the standardization of the retirement age for the region which should be applicable to both public and private sector employees.

Council noted that the consultations on the recommendations of the report had begun in some of the member countries of the Currency Union and recommended that member governments, which had not yet started should commence the national consultations as early as possible.

Council further noted that steps were currently being taken to recruit consultants to address the legal and administrative issues required for the implementation of the recommendations of the Pension Commission.

9.0 Update on the Public Expenditure Review Commission

Council noted the update on the work of the Public Expenditure Review Commission which was established to investigate and make recommendations on appropriate ways of rationalizing public sector expenditure in the currency union.

Council further noted that the Commission would be holding consultations with representatives of the public and private sectors throughout the ECCU to obtain input on critical issues related to public expenditure reform.

Council was informed that the final report of the Commission is expected to be presented to the Monetary Council in October 2011.

10.0 Update on the Debt, Growth and Development Task Force

The Monetary Council noted the update on the Debt, Growth and Development Task Force which is a collaborative effort between the ECCB, member countries of the ECCU, the OECS Secretariat, the CDB, the World Bank, the IMF and the IFC, aimed at examining the prospects for growth in the ECCU and to recommend a path for stimulating and sustaining growth.

Council noted that the Task Force held its inaugural meeting on 11 March 2011 and is expected to present a report to the October 2011 meeting of the Council.

11.0 Upgrading of EC Dollar Notes

Council approved the addition of a braille feature on the EC dollar notes to facilitate easier use by the visually impaired. The feature would be included in the new notes which would be available for circulation in 2012.

12.0 Date and Venue of the next meeting of the Monetary Council

Council agreed that the next meeting of the Monetary Council would be held on 21 October 2011 by videoconference.

ATTENDANCE

Council members attending the meeting were:

- Honourable Reuben Meade, Chief Minister and Minister for Finance, Montserrat (Chairman)
- Honourable Hubert Hughes, Chief Minister and Minister for Finance, Anguilla
- Honourable Harold Lovell, Minister for Finance, Antigua and Barbuda
- Honourable Roosevelt Skerrit, Prime Minister and Minister for Finance, Commonwealth of Dominica
- 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
- Honourable Douglas Slater, Minister for Foreign Affairs, St Vincent and the Grenadines (Temporary Alternate Member)
- Mr Timothy Antoine, Permanent Secretary, Ministry of Finance, Grenada (Alternate Member)

JULY 2011

