

Communiqué of the 72nd Meeting of the Monetary Council, 10 February 2012

The seventy-second Meeting of the Monetary Council of the Eastern Caribbean Central Bank (ECCB) was held on 10 February 2012, under the chairmanship of the

Honourable Reuben Meade, Premier and Minister for Finance, Montserrat.

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 quarter ended December 2011, against the backdrop of global economic and financial developments and provided an outlook for the near to medium term.

Council was apprised that the macroeconomic and financial conditions of the ECCU economy continued to be impacted by the slow economic recovery in the advanced economies. Consequently, as small open economies, the ECCU remained vulnerable to these external shocks.

In discussing the prospects for the ECCU, Council examined the three pillars: (1) exchange rate, (2) fiscal stability and (3) financial sector stability, which inform the analysis of money and credit conditions. Council was informed that the exchange rate pillar continued to be a source of strength and this was expected to be maintained in the short term.

Council recognised the deterioration in the fiscal stability pillar which resulted in lower government revenues causing fiscal imbalances.

Council was apprised that the financial sector stability pillar improved marginally during the last quarter of 2011, but inherent weaknesses in the system persisted. Developments in this area are being monitored closely and ongoing measures being undertaken to strengthen the financial sector should help to stabilise the system over time and mitigate some of the risks.

1.0 Monetary and Credit Conditions

Council was further informed of the following:

1. Liquidity conditions at some indigenous banks tightened.
2. Commercial banks continued to accumulate high levels of excess reserves.
3. Credit growth to the business sector remained below historical norms as the decline in economic activity and the uncertainty of future economic prospects had seemingly lowered the demand for credit. However, since the third quarter, there has been a notable concentration of commercial bank credit in the household sector, particularly mortgages.
4. Public sector credit is estimated to have declined by 2.1 per cent compared to a contraction of 7.4 per cent in 2010. This was mainly due to an increase in loans and advances to member governments as they sought to close their financing gaps.
5. The ratio of gross foreign assets to demand liabilities (the backing ratio for the EC dollar) declined marginally to 95.4 per cent at the end of December 2011 from 96.3 per cent at the end of December 2010. It however, remained well above the statutory level of 60.0 per cent and the operational target of 80.0 per cent.

2.0 Monetary Policy Assessment

Council intensified their discussion on the use of the ECCB's administered rates as a tool for stimulating economic growth. However, having also considered the uncertainty and volatility in the regional and global economic and financial environment, Council agreed to maintain the savings deposit rate at 3.0 per cent; and the Central Bank's discount rate at 6.5 per cent. Council however emphasised the need for the continued close monitoring of these rates.

3.0 Financial Sector Stability

Council was apprised that while the financial sector is expected to remain stable, the ECCU would continue to face challenges in the external environment. In light of this, Council underscored the urgent need to act with caution to limit any unforeseen impact on the region's financial system and reiterated the importance of exploring and implementing greater options for promoting sustainable and balanced growth in the ECCU.

With respect to promoting sustainable and balanced growth, the Council agreed to:

1. Re-activate the Joint Committee of the Monetary Council and the OECS Authority to discuss growth and development issues;
2. Immediately begin the preparation of Medium Term Economic Strategy Papers (MTESP) where none currently exists;
3. Through the OECS Authority and in the context of the requirements of the Revised Treaty of Basseterre, request that the OECS Commission and the Eastern Caribbean Central Bank meet on a quarterly basis to facilitate work programme coordination, particularly with respect to the Growth and Development Agenda.

With respect to growth and development of the ECCU, Council identified the period of adjustment as January 2012 to December 2014 and the transformation of the economies and the creation of a fully functional economic space as January 2015 to December 2020.

With regard to fiscal and debt sustainability, the Council agreed to:

1. Confirm and publish fiscal targets (primary balance and the debt to GDP ratio) for 2012;
2. Reconfirm the agreement at the special meeting of the Monetary Council in Antigua and Barbuda on 14 January 2012, for the exchange of information and close collaboration in resolving the debt problem in the ECCU.

In an effort to maintain the safety and soundness of the ECCU financial system, Council agreed to:

1. Implement measures that would make the ECCU financial system more resilient to shocks.
2. Accelerate the process for the passage of the relevant legislation to facilitate the establishment of the single financial space; and
3. Expedite efforts for improving the efficiency of the Single Regulatory Units (SRUs) by strengthening supervisory capabilities; adopting standardised reporting formats; and developing in-house information gathering and processing and dissemination capabilities.

4.0 Reports from Ministerial Sub-Committees of the Monetary Council

4.1 Ministerial Sub-Committee on Banking

Council received the report from the Ministerial Sub-Committee on Banking and reiterated that member governments should be encouraged to give urgent attention to the implementation of strategies to address the issues confronting the ECCU banking sector.

4.2 Ministerial Sub-Committee on Insurance

Council received the report from the Ministerial Sub-Committee on Insurance which included an update on the status of Plan B, that is, the sale of the traditional portfolio of BAICO. Council was also apprised of the progress of the discussions with the Government of Trinidad and Tobago on the BAICO/CLICO resolution and approved the dissemination of a media release.

4.3 Ministerial Sub-Committee on Debt

Council received the report from the Ministerial Sub-Committee on Debt and was apprised of the urgent need to provide practical solutions to the debt issues ECCU member governments faced.

4.4 Ministerial Sub-Committee on Credit Unions

Council reviewed the report from the Ministerial Sub-Committee on Credit Unions and was apprised of the reviews that were conducted on twelve credit unions in five of the ECCU member countries: Antigua and Barbuda, the Commonwealth of Dominica, Grenada, Saint Lucia and St Vincent and the Grenadines.

Council was informed that the reviews would continue with the assessment of the credit union sectors in Anguilla, Montserrat and St Kitts and Nevis and agreed to encourage member governments, which have not yet done so, to enact the Harmonised Co-operatives Societies Act.

4.5 Ministerial Sub-Committee on International Financial Services

Council, having deliberated on the report from the Ministerial Sub-Committee on International Financial Services, agreed to conduct a regional comprehensive study to identify the attractiveness of the ECCU market; aspects of collaboration among member governments; and to make recommendations for the way forward.

5.0 Status Report on the Resolution Trust Corporation

Council received the update on the operational arrangements being put in place for the Resolution Trust Corporation (RTC) which was established to restructure and recapitalise financial institutions and manage troubled assets.

Council was advised that the legislation regarding the legality of the roles and functions of the RTC differed among member countries and agreed that efforts should be made towards enacting a uniform legislation.

6.0 Price Developments in the ECCU

Council received the report on price developments in the ECCU for the fourth quarter of 2011 which indicated that inflationary pressures slowed during the quarter but continued on an upward trend. At the end of December 2011 the rate of inflation was 0.5 per cent compared to 1.1 per cent in the third quarter

of 2011 and 0.4 per cent in the corresponding period of 2010. Several sub-indices including: education, food, transportation and communication, and medical care and expenses increased, while alcoholic drink and tobacco, fuel and light, and personal services recorded significant declines.

Council also received the report on a further analysis of the Liquefied Petroleum Gas (LPG) pricing in the ECCU, and in light of the potential fiscal benefits and cost savings to consumers, agreed to recommend that member governments that were currently using the Mean Caribbean Postings (MCP) arrangement, should engage fuel suppliers to adopt the Mont Belvieu benchmark for pricing LPG.

Council also agreed to expand the study to include other fuel products.

7.0 Date and venue of the next meeting

Council approved the date for the 73rd Meeting of the Monetary Council as Friday, 29 June 2012 at the ECCB Headquarters, St Kitts and Nevis.

ATTENDANCE

Council members attending the meeting were:

- Honourable Reuben T Meade, Premier 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
- Honourable Nazim Burke, Minister for Finance, Grenada
- The Right Honourable Dr Denzil L Douglas, Prime Minister and Minister for Finance, St Kitts and Nevis
- Dr the Honourable Ralph Gonsalves, Prime Minister and Minister for Finance, St Vincent and the Grenadines
- Mr Isaac Anthony, Monetary Council Alternate, Saint Lucia

10 February 2012