

COMMUNIQUÉ OF THE
59TH MEETING OF THE MONETARY COUNCIL
OF THE EASTERN CARIBBEAN CENTRAL BANK
ANGUILLA
21 JULY 2007



The 59th Meeting of the Monetary Council of the Eastern Caribbean Central Bank (ECCB) was held at the Paradise Cove Resort, Anguilla on 21 July 2007 under the chairmanship of the Honourable Victor Banks, Minister of Finance of Anguilla.

The meeting was preceded by a Handing-Over ceremony to mark the change in chairmanship from Dr the Honourable Ralph Gonsalves, Prime Minister and Minister of Finance of St Vincent and the Grenadines whose tenure of office as chairman had expired. The protocol of the Monetary Council dictates that chairmanship is rotated annually among the eight member countries.

Council welcomed again Prime Minister, Dr the Right Honourable Keith Mitchell in his capacity as Minister of Finance of Grenada. Council also welcomed the Honourable Stephenson King, Acting Prime Minister and Minister of Finance of Saint Lucia, who was attending his first meeting of the Council replacing the Right Honourable Sir John Compton. Council wished Sir John a speedy recovery from his illness.

Council received the Governor's Report on monetary and credit conditions as mandated in Article 7(2) of the Eastern Caribbean Central Bank Agreement 1983, and deliberated on the policy issues raised in the report.

1.0 Monetary and Credit Conditions

Council noted that the monetary and credit conditions which prevailed during the 12-month period ended April 2007 were generally supportive of sustainable business and economic expansion. Real Gross Domestic Product (GDP) growth for 2006 was

provisionally estimated at 6.1 per cent surpassing the 5.8 per cent rate of increase recorded in 2005. Further, preliminary data for the first quarter of 2007 suggested that economic activity in the ECCU remained robust.

Council observed the following:

- **Rapid expansion in deposits in line with the strong economic growth**
Total deposits of the commercial banking system grew by 12.2 per cent to \$14.9 billion over the year ended April 2007 compared with an increase of 8.7 per cent over the corresponding period of 2006. The main factors contributing to this growth were strong foreign direct investment inflows, vibrant construction activity relating to preparations for the Cricket World Cup (CWC) 2007, and the associated buoyancy in economic activity.
- **Continued robust growth in credit**
Domestic credit increased by 18.4 per cent to \$8.8 billion during the 12 months ended April 2007, compared with the 16.1 per cent growth recorded during the corresponding period of 2006. Growth stemmed from the expansion in economic activity and general strong business and consumer confidence, partly attributable to the build-up for CWC 2007, as indicated by the ECCB Business Outlook Survey.
- **Liquidity in the banking system within prudential limits**
Consistent with the strong increase in domestic credit, overall liquidity in the commercial banking system fell at the end of April 2007. Apart from utilizing funds in the system, commercial banks borrowed on the inter-bank market and from head offices abroad to finance the expansion in credit. Notwithstanding the decline at the end of April 2007, liquidity was still considered to be well within prudential limits.

- **An improvement in the international price competitiveness of the ECCU**
Over the 12 months to the end of April 2007 the Real Effective Exchange Rate (REER) was on a downward path, reflecting the decline of the US dollar (to which the EC dollar is pegged) against major world currencies such as the Euro during the same period. A decline in the REER meant that there was an improvement in the international price competitiveness of the ECCU with positive implications for the region's major foreign exchange earner, tourism.
- **A moderation in inflationary pressures at the ECCU level**
Over the twelve months to March 2007 continued depreciation of the REER, strong economic growth, an expansion in prices of international food and building materials and the high and volatile international oil prices, fuelled inflationary pressures in some countries. Inflationary pressures at the ECCU level were, however, somewhat contained. The average inflation rate for the region as a whole was 2.2 per cent over the review period, that is, lower than the 3.6 per cent recorded in the corresponding period of 2006. Across the countries however, the annual average inflation rate ranged from 1.2 per cent to 9.8 per cent while in the preceding period, the rates ranged from 2.0 per cent to 5.0 per cent.
- **A strong ECCU net foreign assets position**
The net foreign assets position of the banking system remained strong as at the end of April 2007, despite robust growth in merchandise imports and a depreciation of the real effective exchange rate. There have been, however, divergent movements in the net foreign assets of the Central Bank and the commercial banking system. The net foreign assets of the Central Bank continued to rise with robust inflows for tourism related investment and favourable bond market performance, while those of the commercial banking system declined with the rapid expansion in credit. The strong ECCB net

foreign asset position has contributed to a relatively high backing ratio for the domestic currency.

Council further noted that monetary and credit conditions were expected to remain broadly favourable for continued economic expansion and for financial and currency stability for the rest of 2007. Growth in economic activity is expected, but some slow down is likely for the remainder of 2007. The pace of activity in the construction sector, the driving force for growth in 2006, is projected to slow with the completion of major projects associated with CWC. The tourism industry is expected to benefit from an increase in visitor arrivals in some countries, associated with intense marketing and favourable economic conditions in the major markets. In addition, agricultural production is expected to expand, influenced by increased banana production and ongoing agricultural diversification in some countries.

Council agreed that although the outlook for monetary and credit conditions was generally favourable for the continued sustainable expansion of real output, attention should be paid to certain downside risks. These included the possibility of marginal CWC post event benefits, unexpected spikes in international oil prices; continued high levels of public sector debt and fiscal imbalances, and inflationary pressures due to a combination of external and domestic factors.

2.0 Monetary Policy Assessment

Council, having assessed the recent monetary and credit conditions, and the anticipated developments in these conditions and the projected economic activity over the short term, agreed to maintain the Central Bank's administered interest rates as follows:

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

3.0 Financial Sector Stability

Council noted the relatively stable position of the banking system. However, in recognition of the Bank's mandate to preserve the soundness of the financial system, Council:

- (i) Approved a structure for the enhanced supervision and regulation of the financial system involving the establishment of a Financial Regulatory Oversight Committee comprised of representatives of the ECCB, Eastern Caribbean Securities Regulatory Commission (ECSRC) and Single Regulatory Units (SRUs).
- (ii) Undertook to encourage member governments to expedite the full functioning of the Single Regulatory Units (SRUs) in order to address the gaps in the regulatory framework.

4.0 Uniform Financial Legislation for the ECCU

In furtherance of Council's decision to pursue uniform financial legislation throughout the ECCU, the Council welcomed the progress made with the formulation of the legislative drafting manual for the currency union which was at the final review stage.

Council also noted the status of legislation with regard to the following:

- The Payment Systems Bill, Bills of Exchange (Amendment) Bill and Money Services Business Bill;
- The Insurance Bill;
- Outstanding Securities Legislation; and
- Banking (Capital Adequacy Capital Ratios) Regulations.

5.0 Commercial Banks' Fees and Charges

In recognition of the impact which non-interest charges and fees could have on the cost of credit, Council supported the following actions proposed to be undertaken by the ECCB:

- (i) Issuance of a code of best practices as it relates to disclosure of, and transparency in banks' fees and charges;
- (ii) The possibility of issuing regulations on banks' fees and charges; and
- (iii) Exploration of ways of publishing the information on fees and charges.

Council also agreed to encourage member governments to:

- (i) Strengthen the functioning, or initiate the establishment of consumer associations in the territories; and
- (ii) Pursue the establishment of a competition authority for the currency union.

6.0 Money and Capital Market Developments

Council agreed that further development of the money and capital markets of the ECCU was critical to the future growth and development of member countries. Accordingly, Council reaffirmed its commitment to build confidence in the Regional Government Securities Market by encouraging the active support of member governments.

7.0 Initiatives for the Promotion of Private Sector Development in the ECCU

In support of the money and capital market development initiatives, the Council welcomed the progress made in the initiatives for the promotion of private sector development in the ECCU being facilitated by the ECCB namely:

- An OECS Distribution and Transportation Company;
- A Regional Holding Company for Cruise Ship Terminals; and
- An Institute of Management, Productivity, Research and Development.

8.0 Transparency Practices for Monetary Policy at the ECCB

Council noted the Bank's involvement in the continued promotion of good governance practices in the member countries of the Organisation of Eastern Caribbean States (OECS) and the wider Caribbean Community (CARICOM).

Council congratulated the Bank in taking the lead among central banks in the region by publishing the Bank's *Transparency Practices for Monetary Policy* in line with the International Monetary Fund's (IMF's) recommendations for "*Good Transparency Practices for Monetary Policy by Central Banks*".

9.0 Fiscal Benchmarks and Targets

The Council noted the report on the fiscal performance of member countries for the first quarter of 2007. In support of the Bank's financial sector initiatives, Council supported the proposition that reducing the debt levels in member countries should be a key macroeconomic goal and agreed to recommend to member governments that they:

- (i) Intensify their efforts at fiscal consolidation in order to achieve the budgeted fiscal targets;
- (ii) Seek to maximise their savings from the increased tax revenue associated with the current higher level of economic growth, by constraining expenditure;
- (iii) Utilise the Regional Government Securities Market (RGSM) for their cash flow and debt management requirements;
- (iv) Develop debt strategies and undertake debt sustainability analyses; and
- (v) Publish member governments' annual debt targets.

10.0 OECS Economic Union

Council was updated on the work of the OECS Economic Union Task Force and stressed the importance of the OECS Economic Union to the future development of the member countries.

11.0 Statistics

Recognising the importance of statistics to policy making and the gaps which presently exist in the currency union, Council encouraged a regional approach to improving the statistical product.

12.0 Dates and Venues of the Monetary Council Meetings for 2007/2008

Council agreed to the following schedule of dates and venues for the period 2007/2008, in line with its decision at the 58th Monetary Council Meeting held on 2 March 2007 to establish fixed dates for the convening of Monetary Council meetings.

<u>Date</u>	<u>Venue</u>
12 October 2007	St Kitts and Nevis
15 February 2008	St Kitts and Nevis
18 July 2008	Antigua and Barbuda
17 October 2008	St Kitts and Nevis

ATTENDANCE

Council members attending the meeting were:

- The Honourable Victor Banks, Minister of Finance, Anguilla (Chairperson)
- The Honourable Roosevelt Skerrit, Prime Minister and Minister of Finance, Commonwealth of Dominica
- Dr the Right Honourable Keith Mitchell, Prime Minister and Minister of Finance, Grenada
- Dr the Honourable Denzil Douglas, Prime Minister and Minister of Finance St Kitts and Nevis
- The Honourable Stephenson King, Acting Prime Minister and Minister of Finance, Saint Lucia
- Dr the Honourable Ralph Gonsalves, Prime Minister and Minister of Finance, St Vincent and the Grenadines
- Mr Whitfield Harris, Jr. Financial Secretary, Ministry of Finance, Antigua and Barbuda (Temporary Alternate Member)
- Mr John Skerritt, Honourable Financial Secretary, Ministry of Finance, Montserrat (Temporary Alternate Member)

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