



COMMUNIQUE OF THE
78TH MEETING OF THE MONETARY COUNCIL
OF THE EASTERN CARIBBEAN CENTRAL BANK
14 FEBRUARY 2014

The Seventy-Eight Meeting of the Monetary Council of the Eastern Caribbean Central Bank (ECCB) was held under the chairmanship of the Honourable Dr Kenny D Anthony, on 14 February 2014 at ECCB Headquarters, St Kitts and Nevis.

Council received the Governor's Report on Monetary and Credit Conditions which was based on developments during the year 2013. The report focused on benchmarks for money and credit in the ECCU; the current state of, and factors affecting money and credit conditions, and the near term outlook and prospects.

Council was apprised of the following:

1. Money and credit conditions remained generally stable and consistent with the levels of economic growth in the ECCU over the past year.
2. Increases in credit were limited by lower demand for credit and efforts by financial institutions to curb the level of non-performing loans.
3. Economic activity in the tourism industry is estimated to have declined with stay-over visitor arrivals falling by 0.8 per cent compared with 2012.
4. Total imports are estimated to have contracted by 2.6 per cent compared with 0.6 per cent in 2012; while exports of goods fell by 1.2 per cent.

5. With respect to member governments' fiscal and debt positions, the ECCU debt service ratio is estimated at 29.9 per cent for 2013, which is marginally above the 28.7 per cent level recorded in 2012. However, the rate is below the indicative maximum target of 31.3 per cent.
6. The current near-term macroeconomic and financial outlook for the ECCU economy remains uncertain compounded by the impact of the recent trough which has severely impacted three of the eight economies: the Commonwealth of Dominica, Saint Lucia and St Vincent and the Grenadines. Notwithstanding, regional output is expected to grow by 1.9 per cent in 2014 and is projected to grow modestly over the next two years in line with some recovery in the global economy.

1.0 Monetary Policy Assessment

Council agreed to maintain the minimum savings deposit rate at 3.0 per cent; and the Central Bank's discount rate at 6.5 per cent.

2.0 Financial Sector Stability, Consolidation and Development

As at 30 September 2013, there were elements of stability within the ECCU financial system evidenced by the strength of the EC dollar, the efficiency of the payments and settlement systems, increasing deposits, improvement in liquidity, and a high level of public confidence.

Significant efforts continued towards strengthening of the non-bank financial sector, particularly to enhance the supervisory and regulator capacity of the institutions within the sector.

Council agreed to continue to pursue its commitment to implementing the Resolution Strategy for Strengthening the Resilience of the ECCU financial system and as such agreed to recommend to member governments that they actively facilitate and support the execution of the following initiatives:

- a) The establishment of the ECCU Basel II Steering Committee which will be mandated to provide advice on the implementation of Basel II in the ECCU. The Basel II Capital Adequacy Framework (Basel II) is the global capital standard for assessing the capital adequacy of commercial banks to ensure that banks maintain a robust and sufficient capital cushion to cover their risks and absorb potential losses. The Steering Committee will comprise representatives from the ECCB, the Single Regulatory Units, the ECCU Bankers Association and accountants.
- b) The establishment of a legislative task force at the national level to determine the legislative requirements for implementing the Resolution Strategy for Strengthening the Resilience of the Financial Sector in the ECCU and to facilitate the passage of the legislation; and
- c) Accelerate the processes towards the amalgamation of the indigenous banks in the ECCU into one bank as a viable option to achieve greater efficiency in operations through:
 1. The establishment and operationalisation of the Resolution Trust Corporation (RTC) and the Eastern Caribbean Stabilisation Fund (ECSF);

2. The promulgation of legislation to create a single financial and economic space as set out in the new OECS Economic Union Treaty and the Protocol to the Treaty;
3. The establishment of an enhanced regulatory and supervisory regime through amendments to the ECCB Agreement and the Banking Act; and
4. The centralisation of regulatory bodies at the currency union level.

3.0 Growth and Competitiveness

The ECCU member governments have intensified their focus on increasing real GDP growth rates to a minimum of 3.0 per cent over the adjustment phase 2013 to 2015 and increasing to 5.0 per cent throughout the transformation period starting from 2017.

The OECS Economic Union provides a useful framework for fostering the balanced growth and development of the ECCU. Council noted the advances that have been made with respect to the free movement of people across the currency union and concurred that additional effort is required to reap the maximum benefits from the integration process. Council therefore, agreed to recommend that member governments continue to improve the efficiency of the OECS Economic Union by undertaking the institutional, regulatory and legal reforms that are needed to harmonise regulations and policies to facilitate business expansion and enhance coordination among member states.

Achieving the desired level of growth in the ECCU requires a concerted and collaborative effort between policymakers and the private sector. In light of this, Council agreed to recommend to member government that they foster greater

collaboration with the private sector and civil society through tripartite committees to improve the region's financial and economic landscape.

4.0 Fiscal Consolidation and Debt Management

Given that fiscal coordination allows for more cohesive policies, greater transparency and accountability, and enhanced fiscal management within the currency union, Council agreed to recommend to member governments that emphasis be placed on crafting regional policies which encourage greater synergies in the critical areas such as taxation, tourism, transport and foreign direct investment (FDI).

5.0 The United States Foreign Account Tax Compliance Act (FATCA)

In an effort create the ECCU Foreign Account Tax Compliance Act (FATCA) compliance framework prior to the FATCA implementation date of 1 July 2014, Council agreed to recommend to the member governments that the following be undertaken with urgency:

- a. The ratification of the Inter-governmental Agreement (IGA) Model 1A as per the decision of the Monetary Council at its 76th meeting;
- b. The appointment of a representative to the ECCU FATCA Negotiation Team;
- c. The submission of a letter to US Department of Treasury indicating the intent to comply with FATCA;
- d. Make resources available to fund the negotiation phase;
- e. Signing of the negotiated IGA with the US;
- f. Enactment of the overarching legislation which would allow financial institutions in the respective jurisdictions to comply with the FATCA Implementation and Enforcement Bill; and

- g. Establishment of the Competent Authority within the Inland Revenue Departments, and the implementation of the administrative requirements for its operationalisation prior to the registration deadline of 25 April 2014.

6.0 Establishment of the Eastern Caribbean Financial Services Regulatory Commission (ECFSRC)

Council endorsed the recommendation from the Technical Core Committee on Insurance to establish a transition and implementation team to guide the establishment of the Eastern Caribbean Financial Services Regulatory Commission (ECSRC) including the future ECCU regulatory architecture; the role of the single regulatory units (SRUs) and operationalisation of the Commission.

7.0 ATTENDANCE

Council members attending the meeting were:

1. Honourable Dr Kenny D Anthony, Prime Minister and Minister for Finance, Saint Lucia (Chairman)
2. Honourable Hubert Hughes, Chief Minister and Minister for Finance, Anguilla
3. Honourable Harold Lovell, Minister for Finance, Antigua and Barbuda
4. Honourable Roosevelt Skerrit, Prime Minister and Minister for Finance, Commonwealth of Dominica
5. Dr the Right Honourable Keith Mitchell, Prime Minister and Minister for Finance, Grenada
6. Honourable Reuben T Meade, Premier and Minister for Finance, Montserrat
7. The Right Honourable Dr Denzil L Douglas, Prime Minister and Minister for Finance, St Kitts and Nevis

8. Dr The Honourable Ralph Gonsalves, Prime Minister and Minister for Finance,
St Vincent and the Grenadines

14 February 2014