



COMMUNIQUE OF THE
85th MEETING OF THE MONETARY COUNCIL
OF THE EASTERN CARIBBEAN CENTRAL BANK

22 July 2016

The Eighty Fifth (85th) Meeting of the Monetary Council of the Eastern Caribbean Central Bank (ECCB) was held under the chairmanship of the Honourable Gaston Browne on 22 July 2016 at Sandals Grande Antigua Resort and Spa, Antigua and Barbuda.

1.0 Council received the Governor's Report on Monetary and Credit Conditions in the ECCU which assessed the recent trends in monetary and credit conditions, within the context of the Bank's broader objectives of ensuring the stability of the exchange rate and exchange arrangements and the stability of the financial system. The report, which was based on data and developments during 2015, indicated that:

- a) Monetary conditions improved further during 2015 as reflected in the broad money supply which was estimated to have increased by 3.9 per cent following the 6.2 per cent growth registered during 2014.
- b) Credit conditions are estimated to have tightened which was evident in the rise in weighted average interest rate spread from 6.3 per cent to 6.8 per cent. Total loans and advances of the commercial banking sector fell by 3.6 per cent, a slower pace than the 5.2 per cent contraction recorded in the previous year.
- c) Real output in the ECCU is estimated to have grown by 2.7 per cent in 2015 compared with 3.2 per cent in 2014.
- d) Activity on the Regional Government Securities Market (RGSM) declined relative to 2014. The total number of auctions fell to 53 from 56. The average weighted cost of short-term maturities (91-day to 365-day) declined, while long term securities became more costly compared with 2014.

Council deliberated on the state of monetary and credit conditions in the ECCU and the analysis of the initial impact of the reduction of the MSR in May 2015, which indicated that the reduction yielded minimal impact on lending rates. Council agreed to maintain the minimum savings deposit rate at 2.0 per cent; and the Central Bank's discount rate at 6.5 per cent.

The Monetary Council also agreed that future reduction in the MSR should be tied to the establishment of deposit insurance and money and capital market development initiatives.

2.0 Financial Stability

As at 30 April 2016, the ECCU financial system was assessed as stable. However, challenges persisted in the banking and non-banking sectors. Elements of stability within the ECCU financial system were evidenced by the strength of the EC dollar; the efficiency of the payments and settlement system; a general show of public confidence; and improvement in liquidity ratios.

2.1 Update on the Impact of and Response to De-risking in the ECCU

The Monetary Council was updated on the recent trend of “de-risking” by global banks and noted that correspondent banking relationships are critical for enabling key financial and economic transactions, such as, remittances, foreign direct investments and international trade in goods and services, which contribute significantly to the region's growth and development.

Council therefore agreed that urgent and ongoing discussions on correspondent banking relations geared towards promoting financial inclusion, trade facilitation in the global market and monetary policy in general are required.

Council approved the ECCB's assumption of full responsibility for AML/CFT regulation of all institutions licensed under the Banking Act.

Council also agreed to recommend to member governments, where applicable, that necessary regulations be issued to vest authority in the ECCB for AML/CFT regulation.

2.2 *Update on ECCU Bank Fees and Charges*

The Monetary Council recognises that increases in commercial banks' fees and charges impose an additional financial burden on customers. Council also expressed extreme concern that the increase in fees was implemented after it had approved the reduction in the Minimum Savings Rate (MSR).

The ECCB continues to monitor these charges closely, and with the aid of the ECCU Working Group on Commercial Bank Fees and Charges, would continue its progress towards the development of a framework to address the fees and charges of commercial banks.

An ECCU Working Group on Commercial Banks Fees and Charges was officially established with the convening of its first meeting on 30 June 2016.

The Group is expected to conduct a comprehensive analysis and assessment of the suitability of fees charged by commercial bank in the ECCU and report on the findings. The assessment would encompass engagements with key stakeholders including the ECCU Bankers Association and a review of fees and charges in selected CARICOM territories.

Council noted the reporting timeline of the ECCU Working Group on Commercial Bank Fees and Charges which includes the submission of the final report to the 86th meeting of the Monetary Council scheduled for 21 October 2016.

3.0 Fiscal and Debt Sustainability

The fiscal performance of member governments is projected to improve in 2016 and the near term due to ongoing fiscal consolidation programmes and improving macroeconomic conditions.

The return to positive growth in the ECCU member countries presents an opportunity for member governments to institute policies necessary to safeguard fiscal and debt sustainability.

Council therefore agreed to adopt fiscal rules, including interim targets, as a means to increase fiscal buffers and flexibility in government operations. Council also agreed to strengthen the governance framework for Citizen by Investment (CBI) flows to optimise the development impact.

4.0 Growth and Competitiveness

4.1 Strengthening the Framework for Development Financing in the ECCU Within the Context of a Single Economic And Financial Space

The Monetary Council was apprised of the need for the financial sector to provide adequate resources to the productive sectors and hence the need to implement reforms for strengthening the resilience of the financial system and for developing the financial institutions and the infrastructure to improve financing to support economic growth, reduce unemployment and poverty.

The Monetary Council noted that the recommended approach to address the provision of finance for the development of the productive sectors will be anchored within the broader policy framework and agenda for reform and development of the financial sector in the ECCU within the context of a single economic and financial space. This would include the introduction of Partial Credit Guarantee Scheme and legislative reforms to the insolvency framework and secured transactions and movable collateral registry.

5.0 Report of the Technical Core Committee on Insurance

Council noted the progress of enactment of the Plan of Arrangement Bill and approved the establishment of the Eastern Caribbean Financial Services Commission (ECFSC) by 2018.

6.0 Date and Venue of Next Meeting of the Monetary Council

Council agreed that the 86th Meeting of the Monetary Council be held on Friday, 21 October 2016 at the ECCB Headquarters in St Kitts and Nevis.

7.0 Attendance

Council Members attending the meeting were:

1. Hon Gaston Browne, Prime Minister and Ministry for Finance, Antigua and Barbuda (Chairman)
2. Hon Victor Banks, Chief Minister and Minister for Finance, Anguilla
3. Hon Roosevelt Skerritt, Prime Minister and Ministry for Finance, Commonwealth of Dominica
4. Dr the Right Hon Keith Mitchell, Prime Minister and Minister for Finance, Grenada
5. Hon Donaldson Romeo, Premier and Minister for Finance, Montserrat
6. Dr The Hon Timothy Harris, Prime Minister and Minister for Finance, St Kitts and Nevis
7. Hon Allen Chastanet, Prime Minister and Minister for Finance, Saint Lucia
8. Dr The Hon Ralph Gonsalves, Prime Minister and Minister for Finance, St Vincent and the Grenadines

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