



COMMUNIQUE OF THE
71st MEETING OF THE MONETARY COUNCIL
OF THE EASTERN CARIBBEAN CENTRAL BANK
21 OCTOBER 2011

The seventy-first Meeting of the Monetary Council of the Eastern Caribbean Central Bank (ECCB) was held on 21 October 2011, under the chairmanship of the Honourable Reuben Meade, Premier and Minister for Finance, Montserrat.

Council extended congratulations to the Chairman on being sworn in as the first Premier of Montserrat with the country's adoption of a new constitution on 27 September 2011.

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 June 2011 against the backdrop of global economic and financial developments and provided an outlook for the near to medium term.

Council noted that the macroeconomic and financial conditions of the ECCU continue to be greatly challenged by the adverse global financial and economic situation which has resulted in two consecutive years of negative growth - 2009 and 2010. Following a 0.2 per cent contraction in the first quarter of 2011, available data suggest that economic activity picked up somewhat in the second quarter. Growth was largely driven by a 6.5 per cent increase in tourist arrivals in the second quarter relative to the number recorded in the second quarter of 2010. In addition, a recorded increase in imports of building and construction materials, coupled with an increase in commercial bank credit for home construction and renovation, suggests that construction activity was at a higher level relative to the second quarter of the previous year.

Council further noted that, with the advanced economies continuing to perform below expectations, challenged by fiscal stresses, financial sector instability and pessimistic consumers, the near-term macroeconomic and financial outlook for the ECCU area remains highly uncertain, with significant downside risks. Moreover, elevated unemployment rates and weak payroll growth in the advanced economies will restrict growth in tourism, a major export sector in the ECCU. Accordingly, the growth outlook for the ECCU has been revised downwards, with real growth for 2011 now projected at 0.4 per cent.

1.0 Monetary and Credit Conditions

Council was apprised of the monetary and credit conditions in the ECCU during the quarter ended June 2011 and in particular the following:

1. Liquidity in the banking system continued to improve due largely to increases in grant and official inflows.
2. Commercial bank deposits rose by 1.4 per cent, roughly the same as the outturn in the second quarter of 2010.
3. Credit growth continued to be sluggish at 0.4 per cent, but this is consistent with the weak economic activity over the review period and also reflects tighter loan terms and conditions in the commercial banking sector.
4. Commercial bank lending rates remained elevated despite the continuous rise in liquidity reflecting a higher credit risk premium attached to lending as the economic conditions impact businesses and consumers.
5. The foreign reserves of the Central Bank expanded by 5 per cent relative to an expansion of 2.5 per cent in the comparable period of 2010 due to grant and loan inflows and an improved performance by the tourism industry.
6. The ratio of gross foreign assets to demand liabilities, (the backing ratio for the EC dollar), rose to 96 per cent at the end of June 2011 from 94.8 per cent at the end of the second quarter of 2010. This is well above the statutory level of 60 per cent and the operational target of 80 per cent.

2.0 Monetary Policy Assessment

Council, in assessing the monetary and credit conditions, noted that the fundamental question in respect of monetary policy actions at this time is two-fold. In the first instance, whether a lowering of the savings rate and/or discount rate would lead to a reduction in commercial bank lending rates and by what magnitude? Secondly, whether this reduction in lending rates would lead to an increase in growth-inducing credit? The Council concluded that the empirical evidence provided from previous rate cuts coupled with the current environmental conditions, including the elevated credit risk, did not support a significantly positive response in either case and therefore such expansionary monetary policy actions would have little impact on steering the regional economy out of the current economic slump.

Accordingly, Council directed that the Central Bank maintain:

- (i) the minimum savings deposit rate at 3.0 per cent; and
- (ii) the Central Bank's discount rate at 6.5 per cent.

3.0 Financial Sector Stability

Council noted that the ECCB continues to pursue a coordinated resolution strategy in addressing the challenges facing the financial sector to ensure the continued resilience of the system. Council supported the emphasis being given to actions related to (i) the single financial space; (ii) the legal and regulatory framework; (iii) the supervisory regime; (iv) liquidity management; (v) the resolution mechanism and (vi) a deposit insurance scheme.

Council noted that policy decisions during the review period, in respect of the design and implementation of risk mitigation systems, had served to alleviate some of the downside risks to stability. Council noted in particular that the Resolution Trust Corporation had been incorporated.

4.0 Financial Sector Reform in the ECCU

Council considered the elements critical to the success of financial sector reform, in the continuing attempt to address the issues which could influence the future development of the ECCU.

Council approved the vision for the financial sector as follows:

- (i) The urgent establishment of the single financial space as set out in the new Treaty of Basseterre creating the OECS Economic Union under Article 4.1 (e) which states - “to establish the Economic Union as a single economic and financial space”;
- (ii) A restructured indigenous banking sector to fulfill the four policy objectives as set out in the *Policy Statement on Indigenous Banks* approved by the Council at its 1st Special Meeting for 2011 held on 28 July;
- (iii) A consolidated insurance sector and the implementation of enhanced regulations and prudential requirements as recommended by the Core Committee on Insurance and supported by the Ministerial Subcommittee on Insurance;
- (iv) A rationalised credit union sector to improve viability and operating under an enhanced national regulatory mechanism;
- (v) The completion of money and capital market institutions including the Eastern Caribbean Enterprise Fund to facilitate investors; the Eastern Caribbean Unit Trust catering to a wide range of savers; and credit bureaus to provide the information base for sophisticated and efficient markets.

Council recommended that diagnostics for the insurance and credit union sectors should be conducted as was done for the banking sector, to establish the status of individual entities in these sectors.

Council approved the institutional arrangements for coordinating the implementation of financial sector reform in the ECCU.

5.0 Reports from Ministerial Sub-Committees of the Monetary Council

5.1 Ministerial Sub-Committee on Banking

Council received a report from Dr the Honourable Denzil Douglas, Chairperson of the Ministerial Sub-Committee on Banking. Council took note of the main issues deliberated at the meetings of the Sub-Committee and agreed that financial sector stability continues to be the highest priority at this time. Council also noted the important role of the RTC in working to enhance banking sector stability and reiterated its support for a more concentrated banking sector.

5.2 Ministerial Sub-Committee on Insurance

Council received a report from the Ministerial Sub-Committee on Insurance. Council was updated on developments with respect to the British American Insurance Company (BAICO) situation. Council was informed that the Health Insurance Support Fund which was launched in May 2011 had made some disbursements and a campaign would be launched shortly to heighten the public's awareness of its existence. Council was also apprised of the work which was on-going towards a solution for traditional policyholders.

Council noted the convening of an *ECCU Workshop on Constructing a Regional Framework for Insurance Regulation and Supervision* during 18-19 October 2011 which was attended by insurance regulators, Ministry of Finance officials and industry personnel from the region. Council also noted the Action Plan and Timetable for strengthening the regulatory structure for the insurance sector.

Council approved a media release from the governments of the ECCU providing an update to the public on the BAICO/CLICO developments.

5.3 Ministerial Sub-Committee on Debt

Council received the report from the Ministerial Sub-Committee on Debt. Council agreed that in pursuing a regional coordinated approach to debt management in the ECCU, the proposal for a Debt Restructuring Technical Advisory Group (DRTAG) comprised of regional and international debt experts should be explored.

5.4 Ministerial Sub-Committee on Credit Unions

Council received the report from the Ministerial Subcommittee on Credit Unions. Council noted the status of countries in relation to the passage of the Revised Cooperatives Societies Bill and urged member countries that have not yet done so, to expedite the passage of the legislation. Council also noted a report from the OECS Regulators Technical Committee on Credit Unions.

5.5 Ministerial Sub-Committee on International Financial Services

The Monetary Council agreed that, in light of the changing environment and the need to identify niches, a comprehensive review of the international financial services sector should be undertaken to:

- (i) Determine the current status of the sector in view of the new international regime; and
- (ii) Analyse the costs and benefits of positioning the member countries to take advantage of the new opportunities and growth potential.

6.0 Status Report on the Resolution Trust Corporation

Council noted the update on the operational arrangements being put into place for the Resolution Trust Corporation and the urgent need to obtain funding for the full functioning of the institution which was established with the mandate to restructure and recapitalize financial institutions and manage troubled assets.

Council agreed to use their good offices to advance the efforts of member governments in seeking financial support.

Council noted that three meetings of the RTC Board of Directors had taken place since its incorporation and an external consultant had been appointed to provide technical support for the operationalisation of the corporation.

7.0 Update on the ECCU Eight Point Stabilisation and Growth Programme

Council received a status report on the implementation of the Eight Point Stabilisation and Growth Programme which was adopted by member countries to address the effects of the global financial and economic crisis.

Council considered the update on the ECCU Eight-Point Stabilisation and Growth Programme and agreed to encourage member governments to continue their work in implementing various elements of the Programme.

8.0 Report of the Pension Commission: Update on National Consultations

Council noted that following its approval of a transition period for the implementation of the Commission on Pension and Pension Administration Reform, national consultations have begun. Council also noted the proposed dates for the conduct of these consultations in member countries and the main issues to be addressed including:

- standardization, as far as possible, of plans across the region;
- vesting of benefits and full portability of plans to reflect the spirit of the free movement of labour;
- standardisation of the retirement age for the region.

Council further noted that the consultation exercise should be completed by the end of June 2012.

9.0 Price Developments in the ECCU

Council was apprised of price developments in the ECCU and in particular that there was an increase in inflationary pressures during the second quarter of 2011, compared to the first quarter, partly originating from higher food and fuel prices on the international markets. The end of June rate of inflation recorded for the ECCU was 1.2 per cent compared to 1.4 per cent in the first quarter and 0.6 per cent in the corresponding period of 2010. Food prices remained elevated rising by 1.3 per cent while the fuel and light sub-indices increased by 4.6 per cent.

Council also considered a report on LPG Pricing in the ECCU. Council noted that the Posted Price System being used by member governments for the price build-up was outdated and recommended that steps be taken to update this system. Council also recommended that a central repository of critical information on base prices be established which would allow for information sharing across the member countries and facilitate the proper negotiation of prices with suppliers of petroleum products.

10.0 Country Reports on the Status of IMF Programmes

Council noted the reports from Antigua and Barbuda, Grenada and St Kitts and Nevis on the status of their respective programmes with the IMF.

11.0 Deposit Insurance for the ECCU

Council considered and noted the recommendations contained in a paper on establishing a depositor protection scheme in the Eastern Caribbean Currency Union. Council acknowledged the importance of commercial bank deposits as a repository of wealth in the ECCU and their critical role in the financial stability of the region.

12.0 Update on work of the Public Expenditure Review Commission

Council was updated on the work of the Public Expenditure Review Commission to date and in particular the preliminary findings from the consultations undertaken in member countries.

Council noted that the consultations focused on major issues related to public sector expenditure reform including performance related issues; the legislative framework governing public sector financial management; management and administration in the public sector and procedural issues in the public sector such as accounting and auditing arrangements; the budgeting process and the functioning of the Public Accounts Committee.

Council noted that the preliminary findings suggest that expenditure rationalization will be critical for successful fiscal consolidation. In that regard focus will have to be given to the management of debt, in view of the high costs of debt servicing; wage bill management and efficiency of investment in terms of the contribution to growth; and the strengthening of accounting and auditing practices as well as the proper functioning of the Public Accounts Committees.

13.0 Update on Report of the Task force on Debt, Growth and Development in the Context of the OECS Economic Union

Council noted the status of the work of the Debt, Growth and Development Task Force and in particular the preliminary findings and views of the Task Force on:

- the evolution of debt in the ECCU;
- the growth/debt nexus;
- a strategy for achieving debt sustainability; and
- strategies for attaining sustainable growth.

Council welcomed the fact that the Task Force will seek to ensure that the final report identifies practical solutions to the fiscal and growth challenges which confront the ECCU. Council however noted that in the interim the region would continue its engagement with the international financial institutions and development partners in coordinating technical assistance to enhance the region's capacity in meeting some of these challenges.

14.0 Date of the next meeting

Council approved the date for the 72nd Meeting of the Monetary Council as Friday, 10 February 2012.

ATTENDANCE

Council members attending the meeting were:

- Honourable Reuben 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
- Dr the Honourable Denzil L. Douglas, Prime Minister and Minister for Finance, St Kitts and Nevis
- Honourable Douglas Slater, Minister for Foreign Affairs, St Vincent and the Grenadines (Temporary Alternate Member)
- Mr Isaac Anthony, Permanent Secretary, Ministry for Finance, Saint Lucia (Alternate Member)

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