

Communiqué of 73rd Meeting of ECCB Monetary Council

The Seventy-Third Meeting of the Monetary Council of the Eastern Caribbean Central Bank (ECCB) was held on 29 June 2012, under the chairmanship of the Right Honourable Dr Denzil L Douglas, Minister for Finance, St Kitts and Nevis.

Council received the Governor's Report on Monetary and Credit Conditions in the ECCU which assessed these conditions over the quarter ended March 2012 against the backdrop of global economic and financial developments and provided an outlook for the near to medium term.

Council was apprised that monetary and credit conditions were stable during the first quarter of 2012 and were assessed to have eased relative to the first quarter of 2011. In the financial sector, liquidity conditions continued to improve despite some tightening at some banks. Loan growth was depressed and the non-performing loans ratio increased. Interest rates remained relatively stable and credit to the private sector fell compared to the same period of 2011.

The fiscal position of member governments also strengthened relative to the first quarter of 2011, mainly on account of a narrowing in the overall and primary deficits as adjustments were made to reduce capital expenditures.

The exchange rate remained stable. The ECCB's backing ratio rose to 96.6 per cent, well above the 60.0 per cent statutory requirement and the real effective exchange rate rose, suggesting a loss of competitiveness for ECCU exports.

1.0 Monetary Policy Assessment

Council considered the scope for the implementation of monetary policy in the ECCU and agreed that adjustments in the ECCB's administered rates were not warranted or appropriate at this time. Council therefore 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 Support to ECCB Member Governments

2.1 Growth

Council agreed to recommend that member governments:

- a. Contribute to the finalisation of the OECS Development Strategy and introduce the necessary institutional arrangements to ensure its implementation;
- b. Expedite the preparation and implementation of medium term economic strategy papers (MTESPs). These MTESPs are to be circulated among members of the union for discussion, feedback and consistency.

c. Structure their Public Sector Investment Programmes into (i) short-term employment creating growth generating projects, with immediate payoffs;

(ii) infrastructural projects to help the transition from agricultural to tourism based economies and public/private partnerships; and

(iii) regional projects in the areas of energy, transportation and education/skills training.

2.2 Fiscal and Debt Sustainability

Council also agreed to recommend that member governments:

a. Implement best practices in cash flow management;

b. Prepare and lay before parliament the Medium Term Debt Strategies;

c. Engage the international institutions on the development of a “Highly Indebted Middle Income Country” facility to alleviate the debt burden;

d. Continue to exploit the low yields on the RGSM as a means of reducing debt servicing costs.

e. Review the operations of financial intermediaries, particularly as it relates to long term instruments on the RGSM, to determine avenues for cost savings.

f. Expand the usage of the RGSM and make special efforts to forge a secondary market to increase liquidity on the RGSM.

3.0 Update on the ECCU Eight Point Stabilisation and Growth Programme

Council considered the update on the implementation of the ECCU Eight Point Stabilisation and Growth Programme. With regard to the fiscal reform component of the programme, Council agreed that the Commission on Pension and Pension Reform should review the reports and legislation in countries that are implementing pension reforms for the information of the Council.

4.0 Update on the Publication of Member Governments’ Fiscal Targets

With respect to fiscal targets, Council agreed to recommend that member governments undertake a comprehensive analysis of the targets for achieving growth given the current environment. Council further agreed that the analysis should take into consideration member countries’ ability to service their debts.

5.0 The Structure of the Petroleum Market and the Determination of Fuel Prices in the ECCU

At its 72nd Meeting held on 10 February 2012, Council recommended that research on the pricing structure for liquefied petroleum gas (LPG) be expanded to include other fuel products and the associated supply chains.

Having considered the report, Council agreed to recommend that member governments:

- a. Use a regional approach to adopt the US Gulf spot market price, as the benchmark for the FOB pricing of gasoline, diesel and kerosene instead of the Mean Caribbean Postings, at a date to be determined; and
- b. Consider expanding the use of the moving average method based on past spot prices in the ECCU to establish the final price as a way of smoothing large swings in imported petroleum prices.

6.0 Report on the Public Expenditure Review Commission

Council received the report on the Public Expenditure Commission which was established with the mandate of finding a sustainable fiscal model that would lead to the solution of expenditure challenges among ECCU member governments.

Council was apprised of the major recommendations of the Commission and the required follow-up actions for the way forward. Council agreed to convene a special session with the Commissioners and Senior Public Officials to discuss the issues outlined in the report.

7.0 Report from Ministerial Sub-Committee on Insurance

Council welcomed the decision of the ECCU governments and the signing of the Agreement on 29 June to recapitalise and sell part of the BAICO business to Sagicor Life Incorporated.

8.0 Date and Venue of the Next Meeting

Council approved the date for the 74th Meeting of the Monetary Council as

Friday, 26 October 2012.

ATTENDANCE

Council members attending the meeting were:

- The Right Honourable Dr Denzil L Douglas, Prime Minister and Minister for Finance,
St Kitts and Nevis (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, the Commonwealth of Dominica

- Honourable Nazim Burke, Minister for Finance, Grenada
- Honourable Reuben T Meade, Premier and Minister for Finance, Montserrat
- Dr the Honourable Kenny Anthony, Prime Minister and Minister for Finance, Saint Lucia
- Dr the Honourable Ralph Gonsalves, Prime Minister and Minister for Finance,

St Vincent and the Grenadines

29 June 2012