



2012

Eastern Caribbean Currency Union Economic Review

The Eastern Caribbean Currency Union

Anguilla

Antigua and Barbuda

**Commonwealth
of Dominica**

Grenada

Montserrat

St Kitts and Nevis

Saint Lucia

**St Vincent and
the Grenadines**

Presentation by
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Good evening fellow citizens.

The countries of the Eastern Caribbean Currency Union have endured four years of negative economic growth as a result of the impact of the global economic and financial crisis which has affected all facets of our economic and financial systems.

As we enter the year 2013, it has become clear that we have reached a tipping point which will require our sustained and collective efforts to get our economies on the path to growth and development.

It is for this reason that the theme of this presentation is: “**Realism and Hope**”.

The reality is that we are constrained by factors, both external and domestic, some of which are within our capacity to deal with and some of which are not. For example, one reality which stares us in the face is the resources, both human and natural, that we have at our disposal to drive our economies. Because we now live in a globalised world and are geographically located in the western hemisphere and in close proximity to the United States of America, the most advanced economy in the world, our expectations are very high but our resources are inadequate to provide a similar standard of living as in the U. S. In addition, because we have competitive multiparty political systems, tremendous pressures are put on those systems to deliver public goods and services which are beyond the current capabilities of our economic systems.

The result of these circumstances can be seen in two very marked trends; first, the high level of outmigration from our countries to North America, and second, the increasing fiscal deficits and debt that we are now experiencing.

We therefore need to honestly, objectively, and realistically assess our current situation and the structure and functions of the political, social and economic systems within which we have to operate. If they are not functioning to deliver what we expect them to, we will need to

deliberately make the necessary adjustments to ensure that the practical steps are taken to achieve the successful resolution of our problems. It is only in this way that we can generate the hope for a brighter future among our people.

There are four issues I would like to address in this presentation:

1. Our current realities;
2. Our hopes and aspirations, that is, the vision for the future of our countries;
3. What has been done so far; and
4. What needs to be done at this time

What are the current realities under which we exist? There are two elements to the answer: 1) the external environment; and 2) the domestic landscape.

The external environment has been conditioned by the Great Recession which began in the fall of 2007. Five years later, there still has not been a full recovery and the USA and Europe are still facing severe difficulties including low growth, high unemployment and severe fiscal and debt issues. Since the USA and Europe are our main trading partners, the negative impact on our economies has been and continues to be felt through the tourism industry, the manufacturing sector, foreign direct investment, remittances and access to their money markets.

The rest of the world has experienced varying effects because of their different circumstances. The BRIC economies, that is, Brazil, Russia, India and China, have emerged as some of the most dynamic in the world. The Asian and Latin American economies have shown significant resilience because of commodity prices and prior adjustments during their crises in the 1980s and 1990s. Africa has shown an improved performance due to higher commodity prices and better governance and policies.

The Caribbean, of which the ECCU is an integral part, has lost its competitiveness in many areas, has had its trade preferences for major agricultural export commodities removed or

substantially reduced, has seen its share of the global tourism market decline and has not undertaken the fundamental adjustments that other countries have made. To put it bluntly, we are being left behind in a very competitive world in which countries, both advanced and developing, are having to make significant adjustments to remain competitive.

Preliminary data indicate that economic activity in the ECCU contracted for a fourth consecutive year in 2012, although the pace of contraction slowed relative to the average for the previous three years. Real GDP is estimated to have declined by 0.1 per cent, compared with an average contraction in the previous three years (2009-2011) of 2.2 per cent. This outturn reflected lower output in key sectors such as, construction, transport, storage and communications, and sluggish growth in the tourism industry. Value added by the construction sector contracted by 5.6 per cent, following an average decline of 13.3 per cent in the previous three years.

In the tourism industry, the key driver of growth, a lower rate of increase was recorded in 2012 compared with the performance in the previous year. The weakened performance of the sector was partly due to reduced demand, attributable to higher airfares for regional travel combined with reduced airlift out of the USA, to at least one territory in the Currency Union. The cruise ship sub-sector was also challenged by increased competition from other destinations, resulting in a reduction in passenger arrivals, consistent with the fall in the number of calls, as some member countries were taken off the itinerary of the major cruise companies.

The consolidated fiscal position of the central government improved. However, the policy stance was still expansionary as an overall deficit was recorded. The fiscal operations of the central governments resulted in an overall deficit of \$325.3m, compared with one of \$404.3m realised in 2011.

The current realities at the domestic level are conditioned by the structural features of Caribbean economies, that is, they are small, open and vulnerable. They also have cultural

and sociological impediments to development arising out of a historical legacy of slavery and colonialism. The countries of the ECCU are extremely small by any measurement. Our populations range from 5,000 in Montserrat to 170,000 in Saint Lucia. Our physical sizes range from 35 square miles to 290 square miles and the Gross Domestic Product from 59.1 million (USD) to 1.2 billion (USD).

We are extremely vulnerable to external shocks and natural disasters. External shocks come in forms such as the global recession; but others are; increases in oil and food prices, interest rates, trade barriers or the reduction or removal of trade preferences. In addition, natural disasters hover around us for the latter part of each year in the form of devastating hurricanes. Volcanoes such as the one which literally destroyed Montserrat are also a constant threat.

Size also has implications for the cost of government in the ECCU, which is high given the small population. In order to provide essential services, there is a certain minimum amount which must be spent. Public services, which comprise goods and services and personal emoluments, make up approximately 66.0 per cent of current expenditure in the ECCU. Police, teachers and nurses provide essential services and must have supplies and equipment to be effective. The government also provides assistance and transfers to those who cannot pay for various essential goods and services. Subsidies and incentives are provided to industries and firms which the government wants to encourage. How are these expenditures financed? The answer is quite simple, through taxation. And who pays taxes? The citizens. What about borrowing? The debt has to be serviced, which is also an expenditure item and is also paid through taxes.

If we want law and order, good roads and health and educational facilities, they must also be paid from taxes. When we consider the population profile of the countries, we realise from the limited economically active population and the expanding demands and needs of our societies, how difficult the situation is, and particularly so when economic growth is very low or negative.

The private sector in the ECCU is influenced by the very small size of the domestic market and its general risk-averse approach to export activities. It is also impacted by out-dated regulations and the inefficiency of the government bureaucracy. The sector specialises in the wholesale, retail, real estate, and construction sectors. These are not tradable goods sectors except when foreigners utilise their services. This tells the story of what propels these economies. It is essentially foreign flows from exports of goods and services such as bananas, manufacturing and tourism. The domestic sectors then supply goods and services because of the demand arising from these foreign inflows. This is clearly seen from the activities of the banana and tourism industries. Economic activity fluctuates in tandem with the upswing or downswing of these industries.

The cultural and sociological issues in our circumstances are real show stoppers. The work ethic in our region is not currently geared to high productivity and competitiveness. Productivity and competitiveness are directly linked to hours worked and skill levels. In neither case are we performing at internationally competitive levels.

For historical and structural reasons we now have a situation in the ECCU which is characterised by:

1. Over-stretched governments;
2. Under-performing private sectors; and
3. Weak and dependent civil societies

In charting the way forward for the ECCU to better cope with the challenges which it now faces, it is critical that a clear vision for the ECCU be agreed on. This vision must emerge from among our citizens and communities and must state how we would like to see our countries in the future. One puts forward the following as fairly reasonable ideas about the societies that we would like to create for ourselves and future generations.

Looking forward to the year 2027, which is 15 years ahead and three electoral cycles hence, the following are being suggested:

- The ECCU to be an area of peace and tranquillity with very low crime rates and social and political stability in which day-to-day activities can be undertaken with ease;
- The environment should be clean and pristine with an aggressive approach to maintaining our surroundings in very good stead. Scenes of garbage strewn all over the place are absolutely unacceptable. This has implications for the health of our citizens and the preservation of the tourism industry;
- Public, commercial and residential buildings must be well-maintained and architecturally designed to preserve our heritage and to take advantage of energy efficiencies;
- Our cities, towns and villages should have a welcoming ambience and provide excellent facilities for residents and visitors;
- The services provided in both the public and private sectors should be of the highest order, something of which all citizens can be proud. These services should first of all embrace our own citizens so that when visitors come to our shores we do not have to make an extra effort, as it would be natural to be civil, courteous and helpful.
- There should be increased opportunities for our people in politics, public administration, business, culture, sports and the professions. This will be facilitated by access to high quality health, education and recreational facilities.
- Our economies should be transformed to generate high levels of growth which is reasonably well distributed and able to meet the goals and aspirations which we have set ourselves.

These are all possible and, like other countries before us, we will have to make the sacrifices, exercise the discipline and change the culture to that of collective responsibility instead of individual self-aggrandisement.

The overriding question then becomes: As a collective, are we honestly and objectively prepared to move to a new and higher level which will ensure prosperity for our people at home and respect for our countries abroad in the international community of nations?

What have we done so far? The Treaty of Basseterre 1981 signalled a commitment to closer cooperation and the formation and maintenance of a number of institutions which have ensured our survival to date. These institutions and the close collaboration implied by the Treaty formed the platform on which the ECCU responded to the global crisis. The Monetary Council set up mechanisms through frequent meetings and the establishment of sub-committees to deal with the effects on our financial system.

The major instruments which have been established to respond to the crisis and address our medium term restructuring programme have been:

1. The new and revised Treaty of Basseterre which established an Economic Union in the OECS;
2. The ECCU Eight Point Stabilisation and Growth Programme; and
3. A template for work programme coordination within the OECS and with regional and international financial institutions.

Additionally, important financial and/or technical assistance has been provided by Canada, the United Kingdom, the People's Republic of China, the Republic of China (Taiwan), Brazil, Venezuela and Trinidad and Tobago, and from the IMF, the CDB and the World Bank. The assistance provided has been critical in driving public sector investments in our small island economies and has also contributed to the region's foreign reserves.

In addressing what needs to be done, the first order of business is to obtain broad political and social consensus at both the national and currency union levels on our goals and objectives. I have made it my duty to read for the last several years, all of the manifestos of our political parties, the medium-term economic strategy papers, the public sector investment programmes, and the budget speeches of each country and government. While there are significant

differences between political parties and governments in each country, and there should be, there are some fundamental underlying themes around which there is agreement. These can be listed as follows:

1. Growth and development
2. The reduction of poverty and unemployment
3. Improving the human development indices in areas such as health, education and community development
4. Reducing the levels of crime and juvenile delinquency, and
5. Improving the conditions for workers

One area of both explicit and implicit agreement is on the role and purposes of the OECS and currency union arrangements. These have been enshrined in the legislation of each member country and as such have legal validity as well.

Given the current situation and the challenges ahead a broad series of discussions among our political leaders, both in government and opposition, is required to set the stage for moving forward on our vision of the future. Consultations with the citizenry throughout the length and breadth of the OECS are then required to arrive at political and social consensus on our goals and objectives. The new Treaty sets out the framework and institutional arrangements and provides the opportunity for a new beginning. We must seize it or run the risk of being left behind in the global community. The issue as usual is implementation, and this is what will require the collective will of the governments, the business community, trade unions and civil society.

In the economic sphere the strategy needs to be built around the following:

1. A short term stimulus package using external funds and geared to providing useful work and employment for communities.
2. A big push in the lead transformational sector, by definition tourism, which is necessary for the growth programme to succeed. This will require considerable public and private investment for infrastructure and hotel plant. The extent of the plant, in

terms of the number of beds, must be at a critical minimal level to ensure that we achieve a minimum growth rate of 5 per cent, sufficient revenues to service the financing of the infrastructure, and to make it attractive for international and regional airlines to provide services to the OECS.

3. The third element would be critical investments in the following areas:
 - a. Transportation
 - b. Energy
 - c. The environment
 - d. Information Technology
 - e. Education, Skills training, and Research and Development

4. Fourthly, the active involvement of the populace in the development effort is critical in the years ahead. Potential avenues include involvement in cooperatives and investment clubs.

In conclusion, it would be fair to say that we have reached a turning point in the OECS and the currency union which requires a collective effort involving political and social consensus, technical expertise and managerial and administrative competence.

It is true that we have survived and made steady progress since independence, but all the evidence suggests that this time is different and that to catch up with the rest of the world and our competitors we must be prepared for significant adjustments to our current policies and modes of doing business.

I have no doubt that we have the capacity to succeed in this endeavour, the platform is there. However, we must commit to a programme of adjustment and change at the governmental, business and individual levels which will guarantee hope for this and future generations.

Thank you and goodnight.

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