The 2010 Eastern Caribbean Currency Union Economic Review
By
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Good Evening Ladies and Gentlemen.

I address you at the beginning of the New Year on the economic circumstances, performance and prospects of the Eastern Caribbean Currency Union, as we move forward in the stability and adjustment phase of our response to the economic and financial challenges that we continue to face.

The recent performance of our economies has to be seen against the background of two factors:

1. The unprecedented global financial and economic crisis which began in 2007; and
2. The structure of our own economies.

This global crisis has been the worst in the last eight decades since the Great Depression of 1929 - 1933. It has had a global impact, starting as it did, in the United States of America (USA), which is also our main trading partner and source of investment, tourist arrivals and remittances.

The cost of this crisis to the USA and the other industrial countries has been immense. The following facts would be of significance:

1. Having recorded no growth in 2008, the US economy contracted by 2.6 per cent in 2009. Despite some recovery in 2010, unemployment remained at a high level with 8.4 million jobs being lost during the recession.

2. The deep nature of this recession is reflected in the loss of wealth amounting to approximately 32 trillion US dollars on world stock markets between May 2008 and March 2009. While in the USA, the value of the housing stock fell by 4.3 trillion US dollars between 2007 and 2010.
3. Financial institutions were and still are seriously affected, with some major firms being liquidated and others being bought out or supported by public finances.
4. Sovereign debt in the USA and other major industrial countries has reached historically unprecedented levels.
5. The eurozone is now going through its own crisis, with Greece, Ireland, Portugal and Spain experiencing serious challenges, the survival of the euro being a subject of constant debate. This is a cause for concern as the euro is the second most important international currency.

A very important geopolitical issue has been the shift in economic power and influence to an emerging group of countries, China, India and Brazil, which weathered the crisis quite well and have an increasing share of world output.

All of these circumstances will continue to have a major influence on the progress of our economies. We in turn must deal with the reality of our situation if we are to succeed in confronting the major challenges that we are now encountering.

Our countries are extremely small, and collectively, as a currency union we have a population of only 620 thousand, a land area of 1,164 square miles, and a combined GDP at constant prices of 5.9 billion dollars in 2010. Our economies consequently, are extremely open and vulnerable to external shocks and natural disasters. They also have a very narrow natural resource base and limited human and financial resources. That, ladies and gentlemen is our reality.

The global crisis hit the region with the expected lag and while it began in the fall of 2007, the currency union started to feel the effects in 2009 and this continued into 2010.

The ECCU economies contracted by 7.0 per cent in 2009 and 3.2 per cent in 2010. These contractions were largely affected by declines in construction and tourism activity. Construction, which has been one of the key productive sectors in the ECCU, remained depressed in 2010, contracting by 21.8 per cent, due to the limited availability of foreign financing and reduced inflows of foreign direct investment. Although there was some indication of an uptick in tourist arrivals in the latter part of 2010, activity has not returned to pre-crisis levels.

The contraction in economic activity was also reflected in a decline in currency in circulation which fell by 12.4 per cent in 2010 following a 4.9 per cent decrease in 2009. Domestic credit declined by 2.2 per cent in 2010 in contrast to an increase of 4.8 per cent in 2009. On the fiscal accounts, government revenues declined by 35.6 million dollars in 2010 compared with a decrease of 282.5 million dollars in 2009; while a fiscal deficit of 335 million dollars was recorded in 2010 compared with a 780 million dollar deficit in 2009. The reduction in the overall deficit was the result of a fall in capital spending due to financing constraints. Debt to GDP ratios were 102.8 per cent in 2010, up from 98.2 per cent in 2009.

For these small countries, with economic structures that are externally oriented, the effects of such a crisis present us with major challenges to restructure and realign production and consumption patterns in order to be more resilient and internationally competitive. The slow pace of the recovery of the international economy makes these challenges even more daunting.

The projection for the ECCU countries is for a slow pick-up in economic activity in 2011 and 2012 if the current circumstances and policies persist. The challenge for us in the short-run would be to strengthen fiscal and financial stability and, in the medium-term, to effect a transformation of the economies that would lead to higher and sustainable rates of growth.

Governments have recognised that a critical element in the strengthening of their fiscal operations is the effective management of the public debt. The Debt Management Advisory Services Unit (DMAS), which was established at the ECCB, with assistance from the Canadian International Development Agency (CIDA), continued to provide support to member governments in the form of technical assistance, training and advice for officials in the Ministries of Finance.

In order to improve the fiscal situation the Monetary Council established three commissions. The first, the Tax Policy and Administration Commission made recommendations which have had a fundamental impact on the tax system. The most important has been the Value Added Tax (VAT), which has had a positive impact on government revenues in most countries. The Council is now reviewing the report of the Pension Commission, and the Public Expenditure Commission has been sitting, with its report due to be delivered to the Council in October 2011.

Responding to crises and restoring and increasing the rate of growth are not easy remits for economies with very scarce resources and major policymaking and implementation constraints, such as, limited statistical capacity and coverage, and a deficit in technical and administrative policy capabilities.

It is also fair to say that such turnarounds and adjustments do not happen by chance but require conscious, strategic and skilled interventions to achieve clear and measurable goals. Such turnarounds, if we consult recent history, are based on three fundamental premises:

- Political vision, commitment and oversight
- Technical and administrative capabilities and
- Social consensus and accountability.

The ECCU's formal response to the global economic and financial crisis began in January 2009 with a Joint Meeting of the OECS Authority of Prime Ministers and the Monetary Council of Finance Ministers to engage in an in-depth assessment of the crisis and its impact on member countries. Follow-up meetings were held in June 2009 and April and September 2010 to monitor the implementation of the ECCU Eight Point Stabilisation and Growth Programme, and the progress towards the establishment of the OECS Economic Union.

As a result of these meetings member states have collectively engaged third party countries and regional and international organisations to obtain technical support and financial resources to assist in the adjustment process. This has been translated in practical terms into official inflows of approximately 900 million EC dollars in 2010.

Deliberations took place at roundtable consultations with the International Monetary Fund (IMF) on 25 June 2010 and the World Bank Group on 1 October 2010, where both organisations confirmed their commitment to work closely with the region to address the challenges facing the countries.

The Monetary Council established four sub-committees to deal with issues in the following areas:

- Banking
- Insurance
- Credit Unions
- International Financial Services

These sub-committees have made a major contribution to financial stability. In the case of the International Financial Services sub-committee, its work succeeded in getting the countries off the grey list of the Organisation for Economic Co-operation and Development (OECD) with respect to the International Tax Information Exchange Agreements.

During the year, the new Eastern Caribbean Amalgamated Bank (ECAB) was successfully launched and commenced operations in Antigua and Barbuda on 18 October 2010 following the intervention of the Bank of Antigua and its sale to a consortium of indigenous banks. The new bank, ECAB, has made a promising start and has exceeded our initial expectations. This is a clear indication of the capacity of the ECCU authorities to address the challenges within these jurisdictions.

Consistent with the thrust to consolidate the banking sector, in November 2010, the government of St Vincent and the Grenadines restructured the ownership of the National Commercial Bank (SVG) Ltd by inviting new capital through the East Caribbean Financial Holdings Company Ltd (ECFH), the holding company of the Bank of St Lucia Ltd. The ECFH now has a 51% share-holding. Shares will also be sold to the Vincentian and currency union publics.

The Ministerial Sub-committee on insurance continues to address the issues of the Colonial Life Insurance Company (CLICO) and the British American Insurance Company (BAICO) in collaboration with technical staff from the member governments and the ECCB, supported by technical assistance from the World Bank. A successful resolution of these matters will need the full assistance and cooperation of the governments of Trinidad and Tobago and Barbados with whom our member governments are in constant dialogue.

In an attempt to address the deficiencies in the statistical systems, member countries on 15 December 2010 simultaneously launched rebased National Accounts and Consumer Price Indices (CPI) across the region via videoconference.

The rebased series for the national accounts was developed to improve its relevance and accuracy by changing the base year from 1990 to 2006, which will lead to significant improvements in the Gross Domestic Product estimates. The compilation of a new CPI was also undertaken to reflect the changing consumption patterns among member countries.

In October 2010, when the threat of hurricanes should have no longer been a concern, hurricane Tomas struck St Vincent and the Grenadines and Saint Lucia causing much damage to the agricultural sector and the infrastructure of both countries. These events illustrated once again how vulnerable we are.

The governments of the ECCU are however resolved to address the issues and challenges they face in a very fundamental way. Two major instruments, as you know, have been identified and initiated for these purposes, namely:

- The OECS Economic Union; and
- The ECCU Eight Point Stabilisation and Growth Programme.

The first gives the countries more space and scope for effecting an economic transformation. The second addresses the issues of stability and adjustment as a prerequisite for economic transformation.

The stability and adjustment phase which commenced in January 2009 should be completed by December 2012. All countries, through home-grown or IMF programmes, have taken and are continuing to take significant policy initiatives to address the fiscal and debt challenges.

The phase of transformation will embrace the period January 2013 to December 2020. The overall strategy and process envisages the restructuring and integration of the economies at both the national and OECS levels, that is, within and between countries. This will be paralleled by the repositioning of the combined entities vis-a-vis the wider CARICOM region and the international economic system.

In summary, the ECCU, as a collective, must develop diversified, productive and internationally competitive economies which can be successfully integrated into the global economic system.

There are some critical factors which are fundamental to our progress which I will cite:

1. A major emphasis on justice, law and order to maintain and improve civil society as it is clear that increasing crime can cause major social and economic disruptions.
2. A cost effective and efficient intra-regional transportation system to facilitate and ensure the success of the Economic Union.
3. A concerted and strategic effort to transform the tourism industry to be the lead transformative sector, that is, to convert its present comparative advantage into a competitive one.

In support of the general objectives of sustainable growth and economic transformation, the currency union would also need to execute the following:

- Public sector modernisation to facilitate a highly sophisticated policy framework and architecture;
- The development of a vibrant, creative and innovative private sector which can compete regionally and internationally; and
- Institutional arrangements for the creation of a cutting edge education system, appropriate skills training and capacity for research and development.

The future of our countries, the prevailing circumstances notwithstanding, will depend on our ability and willingness to make fundamental changes in light of the challenges ahead.

It is clear from our experiences over the last two years that collective action aligned with good policies and a positive vision of the future will be vital in the achievement of our goals. These will redound to the improved welfare of our people and brighter prospects for future generations.

Our future actions could be summed up in the words of William Jennings Bryan, "Destiny is not a matter of chance, it is a matter of choice".

Thank you and good night.