



## Communiqué of the 106th Meeting of the Monetary Council of the Eastern Caribbean Central Bank

*Issued: 24 November 2023*

The One Hundred and Sixth (106<sup>th</sup>) Meeting of the Monetary Council of the Eastern Caribbean Central Bank (ECCB) was held on 24 November 2023, via videoconference, under the Chairmanship of the Honourable Camillo Gonsalves, Minister for Finance of Saint Vincent and the Grenadines.

### **1.0 Monetary Stability**

The Monetary Council received the *Governor's Report on Monetary, Credit and Financial Conditions in the Eastern Caribbean Currency Union (ECCU) for the period January to September 2023*. The Report focused on sustainable strategies and policies aimed at maintaining the positive macroeconomic performance achieved in the first three quarters of 2023 and on the back of a strong rebound in 2022—particularly in Tourism, while also providing an overview of the key risks to financial stability within the ECCU and assessing their potential impact in the near to medium term. The *Governor's Report* indicated that:

- a. The global economic outlook is broadly favourable. While economic growth will be positive, the inflation outlook is less certain. Inflation remains the key downside risk confronting the global economy. Global inflation rates, though on the decline, remain stubbornly high and face new challenges from a resurgence in energy prices.
- b. Higher interest rates, which are a result of significant monetary policy tightening by central banks internationally, have begun to cause growth to slow and impact global economic activity. In its latest World Economic Outlook (WEO), the International Monetary Fund (IMF) kept its forecast for global real GDP growth in 2023 unchanged at 3.0 per cent; 0.5 per cent lower than the 2022 estimates.



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Additionally, the WEO for 2024 points to further slowdown in global economic growth (2.9 per cent), as high interest rates will continue to be a drag on economic activity.

- c. Here in the ECCU, the rate of inflation is expected to continue to decline over the medium term from its highs, normalising to around 3.0 per cent by the end of the year.
- d. Monetary, credit and financial conditions in the ECCU remain stable and accommodative, as well as conducive to the stability of the currency. The EC Dollar—the only legal tender in the ECCU—remains stable and strong. The statutory requirement for the backing in foreign reserves is 60.0 per cent. The current backing in respect of foreign reserves is 94.8 per cent.
- e. ECCB's foreign reserves are 8.3 per cent higher year-to-date and 11.8 per cent higher since February 2020. The reserves position improved from \$4.6 billion as at the end of 2020 to \$5.3 billion as of November 2023 (compared with \$5.04 billion at the end of 2022).
- f. Having considered the state of monetary, financial and credit conditions in the ECCU, and on the recommendation of the Governor, the Monetary Council decided to:
  - i. **Maintain** the Minimum Savings Rate at 2.0 per cent; and
  - ii. **Increase the Central Bank's discount rate by 100 basis points (1.0 per cent)** from 2.0 per cent to 3.0 per cent for short-term credit, and from 3.5 per cent to 4.5 per cent for long-term credit.

These are the first rate hikes since the discount rate and long term lending rate were lowered in April 2020 and February 2021 respectively.

The Minimum Savings Rate (MSR) is the lowest rate that commercial banks can offer on savings deposits. The Central Bank's Discount Rate is the rate at which the ECCB lends to governments and commercial banks.



## 2.0 Financial Stability

The Monetary Council was advised of the following developments in the financial sector:

- a. The ECCU banking system remains resilient and stable, with a high degree of liquidity, and profitability has improved. Capital buffers remain at robust levels.
- b. Credit conditions eased as commercial banks increased lending. Household credit continues to be the driving element behind the growth in lending.
- c. Although financial sector stability was maintained, vulnerabilities persist. The Non-Performing Loans (NPL) Ratios of commercial banks and credit unions have remained elevated at 12.2 per cent and 7.8 per cent, respectively, well above the 5.0 per cent regulatory minimum requirement. This runs the risk of reducing capital over time and also reducing the appetite for lending.
- d. The Monetary Council was apprised that from January to September 2023, the issuing countries on the Regional Government Securities Market (RGSM) raised \$745.1 million in Treasury Bills, compared with \$767.6 million during the corresponding period of 2022. It is anticipated that recent initiatives approved by the Monetary Council will encourage greater participation by retail investors, such as households. For instance, issuing governments are to reduce the minimum bid threshold amount from \$5,000.00 (five thousand dollars) to \$500.00 (five hundred dollars) for retail investors, as well as carve out a portion of a short-term instrument and reserve it for investments by household investors.
- e. The Monetary Council received—and approved for publication—the Financial Stability Report for the ECCU for the period January to December 2022.

In furtherance of the Council's expressed support for uniform financial legislation in the ECCU, the Monetary Council agreed to encourage the relevant member governments to:

- i. Enact the proposed amendments to the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) legislation, to confer authority on the Eastern



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Caribbean Central Bank (ECCB) for AML/CFT supervision for its licensees at the earliest opportunity and particularly in light of the FATF 4<sup>th</sup> Round of AML/CFT Mutual Evaluations;

- ii. Enact the proposed amendments to the Banking Act, 2015 in Saint Lucia.

To date, the ECCB has AML/CFT supervisory authority in Antigua and Barbuda, Grenada, Saint Lucia, Saint Vincent and the Grenadines and the Commonwealth of Dominica.

### **3.0 Fiscal and Debt Sustainability**

Several key downside risks have moved to the fore recently. The Monetary Council noted the recent successful engagement between the five Citizenship By Investment (CBI) countries and the US Treasury recognising the criticality of these programmes for fiscal and financial stability.

Climate change and the Atlantic hurricane season are also significant downside risks for ECCU countries. Additionally, the risk to the inflation outlook still looms large despite the recent easing in inflationary pressures.

### **4.0 Growth and Competitiveness**

Council was informed that economic activity in the Currency Union has remained buoyant in the face of an increasingly uncertain global economic environment. The ECCU economy is expected to grow in 2023 (6.4 per cent, compared with 11.2 per cent in 2022), driven mainly by tourism-related services. The economic outlook for the ECCU is favourable, with the main downside risks stemming from elevated inflation and geopolitical developments.

Tourism has continued its strong recovery across the Region, primarily due to higher stayover arrivals from all major source markets, fuelled by pent-up demand in key source markets, intensified marketing efforts by Tourism Authorities and increased airlift into the member countries. As of June 2023, the majority of ECCU countries' total tourism arrivals were already back to levels recorded in the corresponding period of 2019.



Nonetheless, the pace of growth is forecast to slow down going into 2024. For instance, arrivals from the European market, including the United Kingdom, are expected to soften in 2024 as the effects of higher policy rates—as a means to achieve tighter financing conditions throughout the economy—take effect.

Developments in the construction sector have been influenced largely by domestic-related activity, as construction activity related to foreign direct investment (FDI) remains depressed. ECCU commercial banks' credit data point to ongoing buoyancy in household residential construction.

## **5.0 Financial Inclusion**

Council was updated on the progress of the Fintech Pilot Project for the ECCU and affirmed its support for DCash as a safer, faster and cheaper payment instrument. Within the next few months, the ECCB will conclude the pilot and launch DCash 2.0 in full commercial deployment. DCash is a legal tender digital currency on par in value with EC Dollar notes and coins.

Council considered and approved the proposal for the creation of an Office for Financial Conduct and Financial Inclusion, to be set up within the ECCB, with responsibility for regulating financial market conduct and consumer protection in the ECCU's banking and non-banking sectors. Council also directed the ECCB to consult with the relevant stakeholders on the process of drafting requisite legislation to support the establishment of the Office for Financial Conduct and Financial Inclusion. At its 103<sup>rd</sup> Meeting held on 25 November 2022, the Council approved, in principle, the establishment of a Financial Conduct Authority for oversight of matters in respect of consumer protection and to support financial inclusion in the Currency Union.



## **6.0 Updates on the ECCB Strategic Plan 2022-2026 and Greening the Financial System Initiative**

The Monetary Council was updated on the progress of the implementation of the *ECCB Strategic Plan 2022-2026*, which is centred around five strategic themes: *Financial Stability; Payments Modernisation and Financial Inclusion; Environmental, Social and Corporate Governance; Digital Transformation; and Organisational Effectiveness and Development*.

Council was also updated on the progress of the implementation of the ECCB's *Greening the Financial System (GFS)* initiative. The programme is advancing apace across the three project workstreams, namely: *green finance framework; climate risk stress-testing and assessment framework; and renewable energy financing solutions* via the planned regional *Renewable Energy Facility* project, which is at 50.0 per cent completion. The Central Bank has mobilised a total of US\$1.63 million in technical assistance to fund the *GFS* initiative.

## **7.0 Reports received on BAICO, CLICO, ECAMC and ECPCGC**

The Monetary Council received Report No 03 of 2023 from the Core Committee on Insurance, which is charged with advancing efforts to bring resolution for ECCU Policyholders of the failed insurance companies – British American Insurance Company Ltd. and CLICO Life Insurance Ltd. Council agreed to continue its efforts to resolve the outstanding matters and facilitate an additional payout to the ECCU Policyholders.

Council considered and adopted the contents of Reports from the Eastern Caribbean Asset Management Corporation (ECAMC) and the Eastern Caribbean Partial Credit Guarantee Corporation (ECPCGC), including ECPCGC's Financial Report as of 30 September 2023.



Council also approved the recommendation of the ECAMC Board of Directors to adopt proposed amendments to the *Eastern Caribbean Asset Management Corporation Agreement, 2015*. The amendments serve to clarify the existing regulations and improve the effectiveness of the ECAMC.

## **8.0 Reappointments of ECSRC Commissioner and ECCB Board Member**

The Monetary Council approved the reappointment of Mr Isaac Anthony to serve as Commissioner of the Eastern Caribbean Securities Regulatory Commission (ECSRC) for a term of three years, with effect from 01 November 2023.

Council also approved the retroactive reappointment of Mrs Hilary Hazel as Appointed Director for Saint Christopher (St Kitts) and Nevis, for the period 04 April 2023 to 03 April 2026. The term of appointment naturally ended on 03 April 2023 for Mrs Hazel, who serves on the ECCB Board of Directors in her capacity as the Financial Secretary for Saint Christopher (St Kitts) and Nevis.

## **9.0 Date and Venue of the 107<sup>th</sup> Meeting of the Monetary Council**

Council agreed to the convening of the 107<sup>th</sup> Meeting of the Monetary Council in Saint Christopher (St Kitts) and Nevis on Friday, 16 February 2024 at the ECCB Campus.

## **10.0 Participation**

Council Members attending the meeting were:

1. The Honourable Camillo Gonsalves, Minister for Finance, Saint Vincent and the Grenadines (Chairman)
2. The Honourable Dr Ellis L Webster, Premier and Minister for Finance, Anguilla
3. The Honourable Gaston Browne, Prime Minister and Minister for Finance, Antigua and Barbuda



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4. The Honourable Dennis Cornwall, Minister for Finance, Grenada
5. The Honourable Joseph Easton Farrell, Premier and Minister for Finance, Montserrat
6. The Honourable Dr Terrance Drew, Prime Minister and Minister for Finance, Saint Christopher (St Kitts) and Nevis
7. The Honourable Philip J Pierre, Prime Minister and Minister for Finance, Saint Lucia

**24 November 2023**