

COMMUNIQUE´ OF THE
57TH MEETING OF THE MONETARY COUNCIL
OF THE EASTERN CARIBBEAN CENTRAL BANK
ST KITTS AND NEVIS
18 OCTOBER 2006



The Monetary Council of the Eastern Caribbean Central Bank (ECCB) held its 57th Meeting at the ECCB Headquarters in St Kitts and Nevis on 18 October 2006, under the chairmanship of Dr the Honourable Ralph Gonsalves, Prime Minister and Minister of Finance, St Vincent and the Grenadines.

As mandated in the Eastern Caribbean Central Bank Agreement 1983, the Council met to “receive from the Governor, the Bank’s report on monetary and credit conditions and to provide directives and guidelines on matters of monetary and credit policy to the Bank for such other purposes as are prescribed under this Agreement”.

Council was apprised of the recent monetary and credit conditions in the Eastern Caribbean Currency Union (ECCU), noted the projections and considered the recommendations offered to address the policy issues identified by the analysis.

Council’s deliberations were focused on the following matters:

1. Monetary and Credit Conditions

Council noted the developments during the year to July 2006 in the variables which define the monetary and credit conditions in the ECCU and the factors contributing to these developments. Council observed the following:

- Inflows of foreign direct investment associated with tourism related construction activity were primarily responsible for the strong growth observed in deposits. This, in large measure, contributed to an above average rate of growth of 11.3 per

cent in the broad money supply, comprising currency held by the public and private sector deposits.

- More favourable lending terms and conditions from commercial banks as well as the upsurge in construction activity in preparation for Cricket World Cup (CWC) 2007 and other tourism related activity were reflected in a sizeable increase of 16.4 per cent in domestic credit.
- The easing of the banks' terms of credit was evident in the fall in the weighted average lending rate of commercial banks.
- As commercial banks borrowed from abroad and drew down on their external assets to finance credit demand the net foreign assets of the banking system fell.
- The acceleration in the rate of growth of domestic credit led to a decrease in commercial bank liquidity.

Council further noted the outlook for the rest of 2006 and into 2007 which projects sustained economic growth in the economies of the ECCU. With regard to monetary and credit conditions, it was noted that the demand for credit by both the private and public sectors is expected to remain robust, though growth should slow as projects related to the CWC near completion. Council observed that liquidity was still at a high level and is expected to remain adequate to meet the credit needs for maintaining the growth momentum.

2. Monetary Policy Assessment

Council agreed that given the recent developments and the outlook, that the monetary and credit conditions were favourable for sustaining the economic expansion and maintaining exchange rate stability.

In these circumstances Council agreed to maintain the Central Bank's administered rates at their current levels, namely:

- (i) The regulated minimum rate of interest on savings deposits at 3.0 per cent.
- (ii) The Central Bank's discount rate at 6.5 per cent.

3. Financial Sector Stability

Cognizant of the link between financial sector stability and monetary stability, Council reviewed the key performance indicators of the ECCU financial system and concluded that the system remained stable.

Council was however aware of the need to put measures in place to mitigate any threats to the stability of the system. Accordingly, Council agreed to recommend that member governments:

- (i) Establish and effectively operationalise the single regulatory units in each member state.
- (ii) Issue the Capital Adequacy Regulations and pass the Uniform Banking Act in those countries where it has not yet been done.
- (iii) Minimise credit concentration risks in the banking system by limiting their borrowing from any single bank.
- (iv) Review the existing foreclosure legislation for realising real estate pledged as security for loans/mortgages, which would reduce the high level of non-performing loans, thus enhancing financial sector stability.

4. Fiscal Policy Alignment

Council members supported the view that the adoption of a credible fiscal policy framework was critical in supporting the monetary policy stance of the ECCU. To this end, Council agreed that the Central Bank should continue consultations with member governments on implementation of the necessary structural reforms and fiscal consolidation measures to attain the agreed fiscal benchmarks.

5. Statistical Support for Policy Formulation

Council noted the critical importance of timely, accurate and relevant statistics to the process of credible policy formulation. Council accordingly agreed to recommend to member governments the development of a statistical system in the currency union by making resources available for the strengthening of the structure and institutional arrangements for the delivery of statistical services.

6. Money and Capital Market Development

Conscious of the link between finance and economic development, Council agreed that the further development of money and capital markets in the ECCU was critical to meet the current and impending challenges facing the region.

Accordingly, Council agreed to reiterate to member governments the need for legal reform as it relates to the expeditious passage of all outstanding legislation to support the continued development of money and capital markets.

Council further agreed to recommend to member governments that in order to achieve uniform financial legislation throughout the ECCU which would expedite enactment :

- (i) The framework setting out a consultative process among major stakeholders be adopted and
- (ii) The creation of a standard legislative drafting manual for use by all governmental legislative drafting offices in the ECCU be undertaken.

7. Date and Venue of the next meeting

Council agreed that the next meeting would be held in St Kitts and Nevis on Friday, 2 March 2007.

ATTENDANCE

Council members attending the meeting were:

- Honourable Victor Banks, Minister of Finance, Anguilla
- Dr the Honourable Errol Cort, Minister of Finance, Antigua and Barbuda
- Mrs Rosamund Edwards, Financial Secretary, Ministry of Finance, Commonwealth of Dominica (Alternate Member)
- Honourable Anthony Boatswain, Minister of Finance, Grenada
- Dr the Honourable Lowell Lewis, Chief Minister and Minister of Finance, Montserrat
- Honourable Nigel Carty, Minister of State, Ministry of Finance, St Kitts and Nevis (Temporary Alternate Member)
- Mr Philip Dalsou, Acting Permanent Secretary, Ministry of Finance, Saint Lucia (Alternate Member)
- Dr the Honourable Ralph Gonsalves, Prime Minister and Minister of Finance, St Vincent and the Grenadines (Chairman)

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