

COMMUNIQUE OF THE
58TH MEETING OF THE MONETARY COUNCIL
OF THE EASTERN CARIBBEAN CENTRAL BANK
ST KITTS AND NEVIS
2 MARCH 2007



The 58th Meeting of the Monetary Council of the Eastern Caribbean Central Bank (ECCB) was held at the ECCB Headquarters in St Kitts and Nevis on 2 March 2007, and was presided over by the Chairman of the Council, Dr the Honourable Ralph Gonsalves, Prime Minister and Minister of Finance, St Vincent and the Grenadines.

Council received the Governor's Report on monetary and credit conditions in accordance with Article 7(2) of the Eastern Caribbean Central Bank Agreement 1983, and, as specified in the Article, provided "directives and guidelines on matters of monetary and credit policy to the Bank". The members also discussed a number of related matters which could have an impact on monetary and credit policy and on the overall growth and development of the economies of the member countries.

1.0 Monetary and Credit Conditions

Council noted the monetary and credit conditions which prevailed during 2006 and the factors which contributed to these conditions. In particular, Council observed the following:

- Total deposits of the commercial banking system grew by 11.5 per cent to \$14.0 billion in 2006 compared with an increase of 6.9 per cent in 2005. Increased earnings associated with strong foreign direct investment inflows, vibrant construction activity relating to preparations for the Cricket World Cup (CWC) 2007, as well as the associated buoyancy in economic activity, were the main factors contributing to this spurt in deposit growth.
- There was continued robust growth in credit, facilitated by a lowering of commercial bank lending rates, an easing of the terms and conditions for borrowing, and the

general buoyancy of the economy. For the year ended December 2006 domestic credit increased by 15.2 per cent to \$8.4 billion compared with the 14.7 per cent growth recorded in 2005.

- Liquidity in the commercial banking system fell only marginally despite the significant expansion in credit, and remained at a relatively high level, well above the prudential benchmark. This was due to the fact that commercial banks financed the expansion in credit in part by a drawdown of their net foreign assets and borrowing from their head offices.
- There was evidence of a downward trend in the real effective exchange rate (REER), mirroring the slide of the US dollar (to which the EC dollar is pegged) against major world currencies. A decrease in the REER translated into an improvement in the international price competitiveness of the ECCU and therefore enhanced the attractiveness of the region as a tourist destination.
- Domestic prices in the ECCU trended upwards due to a combination of factors including the continued depreciation of the exchange rate and increases in international prices for food and building materials. The high and volatile price of international crude oil was also a contributory factor, though there was some moderation in the latter part of 2006.
- The net foreign assets of the ECCB which provides the backing for the EC currency rose by 3.2 per cent to EC\$1.7 billion during 2006

Council further noted that monetary and credit conditions were expected to remain broadly favourable for continued economic expansion and for financial and currency stability in 2007. Economic growth was however projected to moderate as the pace of activity in the construction sector, the driving force for growth in 2006, was expected to slow with the completion of major projects associated with the Cricket World cup (CWC) 2007. The extent of this slowdown would however be influenced by the growth in the tourism sector, particularly in the first half of the

year, associated with the CWC activities and with the intense marketing efforts and favourable economic conditions in the major markets. The fiscal stance of member governments would also be an important contributory factor.

Council agreed that although the outlook for monetary and credit conditions were favourable, attention should be paid to certain downside risks including unexpected spikes in international oil prices; continued high levels of public sector debt and fiscal imbalances and the magnitude of the slow down of the economies after the Cricket World Cup.

2.0 Monetary Policy Assessment

Council, having assessed the recent monetary and credit conditions, and the anticipated developments in these conditions and the projected economic activity over the short term, **agreed** to maintain the Central Bank's administered interest rates as follows:

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

3.0 Financial Sector Stability

Council **noted** the relatively stable position of the banking system during 2006. However, in recognition of the Bank's mandate to preserve the soundness of the financial system, Council expressed strong support for the initiatives being taken by the Bank including:

- i. Promotion of enhanced credit risk management systems for commercial banks.
- ii. Supporting member governments in making the Single Regulatory Units fully operational in order to address the gaps in the regulatory framework.
- iii. Promotion of good corporate governance practices in financial institutions by:
 - Enforcing guidelines already issued and drafting new guidelines to promote best practices in credit, market and operational risks.
 - The recent hosting of a Corporate Governance Seminar in collaboration with the Eastern Caribbean Securities Exchange (ECSE) with the theme, *The Role and Responsibilities of the Board of Directors of Financial Institutions*; and publication of the *ECCB Handbook for Bank Directors*.

4.0 Uniform Financial Legislation for the ECCU

Council noted the progress made with the formulation of a model legislative drafting manual to facilitate uniform financial legislation throughout the ECCU.

Council also noted the status of various pieces of legislation, namely, the Money Services Business Bill, the Payment Systems Bill, the Bills of Exchange (Amendment) Bill, the Insurance Act and the Banking (Capital Adequacy and Capital Ratios) Regulations.

Council agreed to encourage member governments to facilitate the speedy passage of outstanding legislation.

5.0 Money and Capital Market Development

Council noted the critical phase of market development into which the ECCU was now entering, and the importance of an environment of certainty with respect to event dates and information dissemination and credibility, in building market confidence.

Accordingly, in support of the continued development of the ECCU's money and capital markets, Council agreed to

- i. Establish fixed dates for the convening of Monetary Council Meetings;
- ii. Recommend to member governments:
 - that the providers of statistical information across the currency union establish release dates for the publication of information.
 - that a regional calendar of issues of government securities be compiled.

6.0 Fiscal Benchmarks

In recognition of the need to coordinate fiscal and monetary policies, and in furtherance of the agreement by Council to utilise fiscal benchmarks to guide the fiscal operations of member governments, Council

- i. Noted the fiscal targets for 2007 as announced in the respective budgets of the member governments;

- ii. Approved the development of quarterly fiscal indicators to achieve the fiscal targets and
- iii. Recommended the publication of the respective country targets set for the public sector primary balances and those for the public sector debt to GDP ratios for 2007, pursuant to the decision taken by the Monetary Council at its 56th Meeting.

7.0 Public Sector Debt Management

Council considered the public sector debt management issues in the ECCU and agreed to encourage member governments to take a more aggressive stance to debt management by

- i. Establishing debt strategies and targets for 2007, and
- ii. Developing operational procedures manuals.

8.0 Implementation of Recommendations arising from the Tax Commission Report

Council noted the progress made in the implementation of the recommendations of the Tax Reform and Administration Commission at both the national and regional levels.

9.0 OECS Open for Business Forum

Council noted the success of the “OECS Open for Business Forum” which was convened by the ECCB in collaboration with the RBTT Financial Group and the Eastern Caribbean Securities Exchange (ECSE) Ltd on 2 February 2007 in Trinidad and Tobago.

Council further noted that the forum was part of the Bank’s strategy to develop money and capital markets in the region through direct promotion and marketing and that the ECCB will continue to collaborate with key stakeholders who had expressed a keen interest in moving the process forward.

Council commended the Bank on this initiative and recommended that further fora of this nature should be convened in the international arena.

10.0 Eastern Caribbean Enterprise Fund (ECEP)/Regional Development Bank

Council supported in principle a proposal to establish a Regional Development Bank which would facilitate small entrepreneurs in accessing the financial support required to expand their businesses.

11.0 Transportation and Distribution Company

Council commended the Bank for the insight in exploring the possibility of the formation of a transportation and distribution company. Council endorsed the proposal and encouraged the Bank to undertake further research and analysis on this initiative.

12.0 Institute of Management, Productivity, Research and Development

Council noted the proposal to pursue the establishment of an Institute of Management, Productivity, Research and Development. Council recommended that a paper should be prepared for consideration at the Council meeting in July 2007.

13.0 Economic Union Treaty

Council was updated on the work of the Economic Union Task Force to date.

14.0 Pension Reform and Administration Commission

Council noted the operationalisation of the ECCU Pension Reform and Administration Commission that was previously approved by Council.

15.0 Date and Venue of the Next Meeting

Council agreed that the next meeting would be held in Anguilla on Friday, 20 July 2007.

ATTENDANCE

Council members attending the meeting were:

- Dr the Honourable Ralph Gonsalves, Prime Minister and Minister of Finance, St Vincent and the Grenadines (Chairman)

- Honourable Victor Banks, Minister of Finance, Anguilla
- Dr the Honourable Errol Cort, Minister of Finance, Antigua and Barbuda
- Honourable Roosevelt Skerrit, Prime Minister and Ministry of Finance, Commonwealth of Dominica
- 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)
- The Right Honourable Sir John Compton, Prime Minister and Minister of Finance, Saint Lucia

MARCH 2007