

The 2009 Eastern Caribbean Currency Union Economic Review

By

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Governor

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28 January 2010

Good evening, fellow citizens

This address takes place at the beginning of the second decade of the 21<sup>st</sup> century, a time at which we had envisaged more progress than we have currently achieved.

We have arrived at this juncture humbled by the events which have occurred in the first decade, conscious of our vulnerabilities and the events which have had such a marked effect on our progress.

This evening's presentation will be divided into two parts, a review of the year 2009 and the way forward bearing in mind the significant challenges during that period and the lessons learnt about our vulnerabilities and capabilities and the strategies for pursuing our goals for the future.

The beginning of 2009 was marked by the intensification of what has been called, the most significant disruption of the financial and economic systems in the advanced economies since the Great Depression. The United States of America, our most important trading partner, experienced a significant decline in growth and increasing levels of unemployment. Major financial institutions had either failed or were being rescued and the vital auto industry was practically bankrupt necessitating public funds for its resuscitation.

The impact on the Eastern Caribbean Currency Union was transmitted through our tourism industry by the fall in the number of visitors and tourism receipts; the decline in foreign direct investment (FDI) because of the credit crunch in the United States of America, and the reduction in remittances from our nationals in metropolitan countries.

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The impact on our economies has been significant. We are estimating a contraction in growth in the Currency Union of approximately 7.4 per cent in 2009, primarily due to declines in the tourism and construction sectors.

The situation in the Currency Union was compounded by the collapse of the British American and CLICO insurance companies and a major run on the Bank of Antigua.

These events in both the real and financial sectors severely tested our technical capacity and administrative arrangements.

The Currency Union consists of very small states with limited fiscal space and regulatory resources and highly stretched policy capabilities.

The critical lesson learnt in 2009 was the power of collective action. At the highest political level, the Prime Ministers and Ministers of Finance came together in a joint meeting of the OECS Authority and the ECCB Monetary Council on 15 and 16 January 2009 to review the situation and craft a response to the crisis. This joint meeting was subsequently institutionalised and convened again in July 2009 to follow up on the decisions made in January. The joint meeting also hosted a public video conference across the Currency Union to update the public on the efforts to address the crisis.

The ECCB intervened on directives from the Monetary Council to address the Bank of Antigua situation with the Monetary Council being involved in an extraordinary series of meetings by videoconference and face-to-face to effect a successful rescue of the Bank. Five (5) indigenous banks collaborated in the effort extending the concept of collective action into the financial and private sectors.

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With respect to developments in the insurance sector, a subcommittee of the Monetary Council was established to deal specifically with this issue and has crafted a possible resolution to the matter which is being vigorously pursued.

Two other areas of concern in the financial sector surfaced during the year. Firstly, initiatives by the G20 and the OECD to impose new and punitive arrangements on offshore financial centres, which could have a serious and negative impact on the flow of foreign investment and the relations between financial institutions in the Currency Union and those in our major trading partners. Secondly, the need for legislation covering the regulation of the credit union sector to ensure its stability and reduce the possibility of contagion throughout the financial sector. Two subcommittees of the Monetary Council have been established to manage these issues.

During the course of 2009 a tremendous amount of work has gone into two (2) specific initiatives. The first was the creation of an OECS Economic Union to formalise the obvious success of the collective action which characterised the response to the crisis and the second was the specific elaboration of an Eight Point Stabilisation and Growth Programme to address the current and future issues needed for our economic and social advancement.

An Economic Union Task Force established by the OECS Authority working closely with the OECS Secretariat and member countries crafted a new Treaty, building on the original Treaty of Basseterre. Heads of governments signed the new Treaty at a formal ceremony on the 29<sup>th</sup> of December 2009.

The prospects of a full and complete Economic Union will formalise and deepen the process of collective action.

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There are three specific advantages to be gained from this arrangement:

1. The possibilities and greatly increased potential for economies of scale in production, marketing, distribution and public administration;
2. The ability to spread risks across a wider physical space and larger population; and
3. The capacity to negotiate more effectively with third countries or groups of countries.

The new Treaty provides for greater implementation capacity by:

- Increasing the executive capacity and including restricted legislative powers in the remit of the OECS Authority of Heads of Government;
- Creating an OECS Parliamentary Assembly to review the legislative actions of the Authority and to assess the annual performance of the organs and institutions of the OECS; and
- Creating an OECS Commission which provides for Commissioners from each member territory to facilitate the policy making and administration of the organisation in the achievement of its purposes.

The second initiative, the Eight Point Stabilisation and Growth Programme provides a strategic approach to the resolution of current and future challenges under the political and administrative umbrella of the Economic Union.

The Eight Point Programme went through a rigorous period of preparation including a two-week Boot Camp for technicians from each member country at the ECCB Headquarters in September 2009.

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At this Boot Camp, following completion of the technical work, discussions were held with regional and international institutions including the CDB, CARTAC, IMF, the World Bank and the UNDP. The European Union was also represented. A dialogue was also held with representatives of the Trade Unions and the Private Sector from across the Currency Union.

The Eight Point Programme was then discussed with the Committee of Financial Secretaries from the member countries and endorsed by the Monetary Council.

The components of the Programme are the following:

1. Suitably adapted Financial Programmes for each country;
2. Fiscal Reform Programmes;
3. Debt Management Programmes;
4. Public Sector Investment Programmes;
5. Social Safety Net Programmes;
6. Financial Sector Safety Net Programmes;
7. Amalgamation of the Indigenous Commercial Banks; and
8. Rationalisation, Development and Regulation of the Insurance Sector.

The commitment to the process of political, social and economic reform and development in the OECS and the Currency Union, symbolised by the signing of these two documents, gives us a solid and promising platform on which to approach the challenges of 2010. These challenges are associated with the reality that the crisis will not be over for us, as it is projected that growth in the Currency Union will contract by a further 2.4 per cent in 2010. This is directly related to the lag in the transmission of economic impulses from our main trading partners to us. This lag is usually about 12 to 18 months and is associated, in this case, with the high level of unemployment in

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the United States and its impact on tourist arrivals, expenditure, and the flows of remittances. This has had, and will continue to have an impact on growth, government revenues and liquidity in the financial system.

We still have to be very vigilant and continue to monitor the financial system. Fiscal constraints and high debt to GDP ratios continue to challenge us, and many of our social indicators are under stress.

The Heads of Government have set the following timeframes for its successful implementation of the Eight Point Programme:

1. The period of Adjustment 2010 - 2012
2. The period of Transformation 2013 - 2020

The year 2010 will be absolutely critical as the process has to begin now. The new Treaty must be ratified by all legislatures by June and will be the subject of intense public discussion and debate.

The adjustment process has started and will be accelerated to maintain stability in the face of the continuing crisis and to lay the foundation for the future growth and transformation of the economies.

The ECCB, in keeping with its mandate under Article 4, will continue to work with our member governments and regional and international development partners to meet the challenges.

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The stability and transformation of our economies are critical if we are to provide an improved standard of living and quality of life for our citizens, especially the next generation.

Economic change does not occur spontaneously, it requires a conscious decision and consistent effort by all elements of society inclusive of the government, private sector, trade unions, NGOs and the general public.

Such decisions and consequent changes usually occur during periods of crisis when the status quo is called into question and actions have to be taken to avert economic and social chaos. The countries which have come through these periods successfully have had, as important ingredients, political and social consensus, as well as the technical capacity to plan and implement fundamental changes in the economic structure.

This period presents an historic opportunity for us in the OECS and the Currency Union to move to higher levels of political and economic organisation to give our citizens the opportunity to experience an improved standard of living and quality of life and a respected place in the regional and international community.

We must seize the time!

Good night and God's richest blessings for a successful and rewarding 2010.