

The ECCU Economic Review 2006
Presented by Sir K Dwight Venner, Governor, ECCB
18 January 2007, ECCB Headquarters, St Kitts

Introduction

Good Evening Fellow Citizens of the Eastern Caribbean Currency Union.

On behalf of the Monetary Council, Board of Directors, Management and Staff of the Eastern Caribbean Central Bank I bring you Greetings and Best Wishes for a Bright and Prosperous New Year.

I would like to take this opportunity, in what has now become a tradition, to present to you the Bank's assessment of the performance of the economies of the Currency Union for the past year. This will be followed by our views on the issues and outlook for the year 2007.

We meet at what the Bank considers to be a potential turning point in our economic history. This period can in many ways be viewed as a time of transition and transformation for our economies and societies. It therefore presents great challenges and opportunities for us, at all levels.

We will have to give of our best to meet these challenges which include globalization, the CSME, ICC Cricket World Cup 2007 and the economic and social issues which confront us in our daily lives. This will have to be done at the level of the individual, the family, business firms, trade unions, professional organizations, national governments, and the Currency Union, as a collection of states.

The Economic Performance of the ECCU in 2006

The year 2006 was one in which the Currency Union experienced one of its highest growth rates in recent times. Prior to this, growth had averaged 6 percent in the 1980s, 3 in the 1990s and declined to 1 percent after the incidents of September 11th 2001.

A gradual pick up in growth trends has been evident since that low point, and growth

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has been estimated to be at least 7.1 in 2006. The favourable performance of the international economy and improved monetary and credit conditions were the general circumstances which facilitated this spurt in economic growth.

Some highlights of the past year were as follows:

- ◆ The US dollar, to which the EC dollar is pegged, fell against other major currencies such as the euro, the yen and the pound sterling, making our exports, and particularly our tourism product, more competitive. The rise in the price of oil and non US imports however led to an increase in domestic prices.
- ◆ Our foreign exchange reserves continued to increase reaching EC\$1.9 billion at the end of December 2006. This contributed to the backing ratio reaching 99.2 percent and the ratio of foreign reserves to imports exceeding the IMF's three month benchmark.
- ◆ Our surveys on credit market conditions conducted in 2006 indicated that overall, lending terms for loans, were quite favourable. Credit to households increased by 11.7 percent and was used mainly for mortgages and the purchase of consumer durables. Business loans also rose by 23.5 percent and were used for fixed investment, inventories, working capital and debt restructuring.

A noteworthy feature of the credit situation was that credit card debt, which carries very high interest rates, expanded by 22.7 percent.

- ◆ The high rate of economic growth in 2006 was boosted by expansion in the construction and tourism sectors.

Construction activity in both the public and private sectors intensified in the run up to the ICC Cricket World Cup 2007. Public sector construction of infrastructure and sporting facilities increased significantly.

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There was an overall expansion in the tourism sector in terms of tourist arrivals and receipts. The number of stay-over visitors rose by 4.8 percent, and receipts increased by 10to EC\$3.3 billion in 2006.

- ◆ Activity in the manufacturing sector is estimated to have increased by 3.4 percent in 2006, fuelled mainly by higher external demand. In this area the work of the OECS Export Development Unit should be complimented on increasing the competitiveness of a number of companies with whom they worked in a programme sponsored by the USAID. This would seem to indicate, contrary to popular belief, that this sector can make a significant contribution if provided with finance and technical assistance for retooling.
- ◆ In the area of public finances the central government's overall deficit widened in 2006 due to a significant increase in capital expenditures. The surplus on the current account increased due to growth in revenues associated with robust national income growth and improved tax administration. Total outstanding debt continued to increase and is an area of real concern for the members of the Currency Union.
- ◆ The financial system in the ECCU remained stable in 2006 with commercial banks' capital adequacy and liquidity at acceptable levels. However, non performing loans while decreasing are still of some concern and the ECCB has urged the banks to comply with the international standard of no more than 5 percent of total loans by the end of 2007.

With respect to regulation all countries have now passed the amended uniform Banking Act and the ECCB has issued guidelines in the following areas:

- Corporate Governance;
- Liquidity Management; and
- Related Party Transactions.

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The local authorities are also in the process of establishing Single Regulatory Units for regulation and supervision of the non-bank financial sector.

- ◆ Solid progress has been made during the past year in the development of money and capital markets in the Currency Union. All six independent countries have now listed their securities on the trading platform of the Eastern Caribbean Securities Exchange. The governments have now raised a total of EC\$1.7 billion on this market, and made significant savings of almost EC\$14 million in debt servicing, as at December 2006.

The Securities Exchange has continued to attract attention both within the Currency Union and abroad. Trinidad Cement Limited was the third CARICOM firm to list on the ECSE. The other two are Grace Kennedy Limited from Jamaica and FirstCaribbean International Bank whose head office is in Barbados.

- ◆ The ECSE has successfully demonstrated connectivity of its trading platform from Guyana, Trinidad and Tobago, Barbados and the BVI and from Singapore in East Asia.

Prospects for 2007 and Beyond

This year presents a golden opportunity to use a major event, the ICC Cricket World Cup 2007, as a spring board for facilitating the transition and transformation of our economies. In the history of every country there are unique turning points which become reference points for opportunities taken or opportunities missed. This is such a time and event.

The following would seem to be the critical elements associated with the event:

- The provision of vital infrastructure and sporting facilities which should be viewed as exploitable assets;

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- The acquisition of commercial disciplines which are essential to run a modern economy; and
- The international and regional exposure which will put the countries of the Currency Union on the map, so to speak.

The challenges we associate with the staging of this event come under the setting of a principle and three sequential phases. In summary, they cover the principle of management and its application in:

1. The preparatory phase;
2. The event itself; and
3. The post event process of coming in for a soft landing after the high point of the spectacle.

However, the success of the ICC Cricket World Cup 2007 will not solve all of our problems. Other significant challenges remain which we have to address on an ongoing basis. These include:

- The loss of trade preferences for our agricultural export commodities;
- The capacity to treat with integration into the CARICOM Single Market;
- The urgent need to address our fiscal and debt imbalances;
- The challenge of deteriorating social conditions in the areas of health care, in particular HIV/Aids, criminal activity which is on the increase, and continuing pockets of poverty in both the urban and rural areas; and
- Our vulnerability to external shocks and natural disasters and the threats to our fragile ecosystems.

Our approach to these challenges must involve the possession of a vision and strategy to facilitate the growth and development of our countries.

The reality of living in an arrangement like the OECS and the ECCU is that there is a two-tier government and governance system sanctioned by Constitution, Treaty,

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Agreement and Legislation. A common court, common currency, and central bank, as well as joint regulation of banking and securities, civil aviation and telecommunications, introduce a dual dimension to these countries which has brought considerable advantages of credibility, objectivity and effectiveness.

The policy approaches to the challenges will therefore have to be centered on two fundamental levels

- OECS/ECCU; and
- The individual country.

The OECS/ECCU responses have been based on three premises:

1. The advantages of economies of scale and scope in production, marketing, distribution and public administration;
2. The mitigation of risk through the pooling of resources, for example, skilled manpower and foreign exchange reserves; and
3. The capacity to negotiate with third countries or groups of countries.

The Heads of Government have taken the decision to move to a higher level of integration, that is, an OECS Economic Union in order to expand the economic capabilities of the member states.

In addition the Monetary Council of the ECCB has mandated the Bank to spearhead the creation of a single financial space in the Currency Union to promote the financial development of the member states.

At the national level there is the need for the governments to create an enabling environment to promote investment and the empowerment of the population to facilitate economic and social development.

A critical priority is the cost effective provision of vital public services which will

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enhance the standard of living and the quality of life. Countries will have to analyse and review the trade off between sovereignty and efficiency in the provision of such services. Services can be shared between countries to reduce the unit costs and mitigate the fiscal and debt burdens which are associated with the provision and financing of essential state activities. Examples exist in the working of such institutions as the Eastern Caribbean Supreme Court and the Eastern Caribbean Central Bank.

The policy framework and architecture of each country must take into consideration the following arrangements:

- The policy making and reporting framework centered around the legislature and the Cabinet of Ministers;
- The technical analysis to be carried out by a skilled cadre of professionals in finance, trade, statistics, debt management and the economic and sectoral areas;
- The efficient and timely delivery of services to the public in the education, health, social, legal and business areas;

This policy framework is required to manage the evolution of the economies from the production of commodities to the provision of services. This trend is already in evidence as the data on the contribution to national income and output reveal.

Tourism has become our major foreign exchange earner far outstripping the contribution of export agriculture which has declined considerably with the removal of preferences. The perennial question has been, how do we structure our tourism industry to provide backward and forward linkages to other sectors?

It would seem that conscious planning efforts are necessary to achieve this, aided of course by clear market signals. Tourism would seem to be, and can be aligned with other modern non-traditional sectors such as finance, and information and communications technology (ICT). It can also provide backward linkages to agriculture and manufacturing, which could also benefit from the organizational and

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technological spillovers from finance and ICT.

The World Bank has recently produced two documents which have been very encouraging to the countries of the Currency Union. The Growth and Competitiveness Report identifies areas of production possibilities where activities are already taking place and where there is scope for investment.

The other document on "Doing Business in 2006" gives very high marks to some ECCU countries on an international basis. If we can carry out critical but simple reforms in some very essential areas, our ratings could be even higher in the next assessment.

If we add to this the relative political, social, currency and financial stability that our countries currently enjoy then the prospects for our countries could improve significantly between 2007 and 2010.

One could summarize by pointing out that:

1. The ICC Cricket World Cup 2007 can provide a significant stimulus and exposure for our countries;
2. The stability of our economies and societies is fundamental for our progress;
3. The economies are evolving in the area of services but traditional activities in agriculture and manufacturing could ride on the coat tails of these new sectors;
4. Fiscal and debt imbalances should be addressed with some urgency in order to increase the levels of policy flexibility and resilience;
5. OECS integration provides a critical platform for facilitating these new arrangements and the consolidation of the existing arrangements which have served us well in the past.

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Conclusion

In conclusion, it would be fair to say that these countries have made significant progress over the last two decades. They have attained levels of political, social and economic development which seemed virtually impossible in the 1960s when they were in, what could only be described as, a constitutional limbo.

It is interesting to note that the first of our major institutions, the Eastern Caribbean Supreme Court, was started 40 years ago in 1967. It is also interesting that the regional institutions serving the OECS have been extremely durable and effective since they have been established. This should be a lesson for us in our efforts to transition to a higher level of social and economic development. The lesson being that we need institutions of the highest calibre and policies which are appropriate to our own circumstances to see us through in achieving our goals.

As we set sail on this venture it is important that we all come together in the Currency Union to ensure that our efforts are successful.

Thank You and Good Night.