STATEMENT BY
GOVERNOR, EASTERN CARIBBEAN CENTRAL BANK
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At 3rd Growth and Resilience Dialogue with Social Partners
ECCB Headquarters, St Kitts and Nevis
14 February 2019

Salutations:

Members of the Monetary Council - Chief Minister Banks, Minister Gonsalves
Premier of Nevis
Ministers of Governments
Leaders of the Opposition
Other Parliamentarians
Dr Didacus Jules, Director General of the OECS Commission
Deputy Governor of the ECCB
Chief Director (Policy), ECCB
Members of ECCB's Board
Managing Director, Eastern Caribbean Securities Exchange
Financial Secretaries
Management and Staff of the ECCB
Moderators and Presenters
Development partners – Caribbean Development Bank and World Bank Group
Social Partners: Businesses, Labour Unions, Churches, Civil Society, Youth
Citizens and Friends of the ECCU (who have joined us via ECCB Connects Facebook page and ZOOM
Members of the Media

Introduction

On behalf of Prime Minister Dr The Right Honourable Keith Mitchell, Chairman of the Monetary Council, other members of Council and on my own behalf, I welcome each of you to the Third Growth and Resilience Dialogue and to the Eastern Caribbean Central Bank.

This is your Bank. We work for you. It is our privilege to serve you.

Is anyone visiting ECCB for the first time? I extend special welcome to you.

Happy Valentine's Day to all!

The Chairman of the Monetary Council is unavoidably absent for this morning's sessions but has asked me to convey his best wishes. He is likely to join us this afternoon.

The theme of this year's Dialogue is "***Building Resilient Institutions and Infrastructure for Sustained Growth***"**(Slide 1**).

Is this event a talk shop? No, it is not and was never intended to be. But its ultimate utility depends on what we do. After all, we are judged by our actions, not merely by our words.

What then are ECCB's expectations for this third Dialogue?

First, to continue our conversation about building resilience and transforming our region - this Dialogue brings together a diverse group of leaders and social partners from across our region and mirrors the in-country engagement our Bank has sought to encourage through our follow-up country consultations and country outreach missions. This Dialogue is premised on our firm conviction that effective and sustained progress is best fueled by a process of inclusive and sustained dialogue.

Second, to offer participants, regional and even global perspectives, a vital ingredient that is sometimes missing in our spirited national conversations - indeed, these perspectives are critical because many of our development issues such as security, financial stability and transport can only be tackled effectively through regional cooperation and collective action.

Third, to re-energise each of us to pursue collective action for the good of the people of our Currency Union. Frankly spoken, the ultimate success of this Dialogue depends on all of us. It ought to be followed by in-country implementation led by champions and delivery units and supported by our regional institutions and development partners.

I now wish to furnish you with a brief macro-economic context.

Macroeconomic Context

According to the *World Economic Outlook* published by the International Monetary Fund (IMF) last month, the global economy is slowing down and is now projected to grow by 3.5 per cent in 2019 and 3.6 per cent in 2020 **(Slide 2).**

There are several downside risks to these forecasts including ongoing trade tensions, slower growth in China, tightening of financial conditions, BREXIT, climate change and the Venezuela situation (**Slide 3**). The latter three are particularly pertinent to our region, at this time.

Speaking of climate change, the frequency and ferocity of storms have increased as evidenced by the super storms in 2017. The increased frequency of strong hurricanes in the Caribbean basin is further evidenced by statistics that show that 17 of the 18 warmest years have occurred since 2001 (https://climate.nasa.gov/vital-signs/global-temperature/). Indeed, global warming is turbo-charging the atmosphere and resulting in more intense hurricanes.

While the threat of global warming to the Caribbean is most associated with hurricanes, the threat shows up in other manifestations such as droughts, unseasonal rainfall, coral bleaching and rising sea levels. The January 2019 edition of the *Caribbean Drought* bulletin has warned that, “short and long term droughts are likely to develop in parts of the Caribbean during this dry season”. (http://rcc.cimh.edu.bb/files/2019/01/Caribbean-Drought-Bulletin-January-2019.pdf). Indeed, I gather some of us may already be experiencing water shortages (and we are only in February).

And if these sobering facts were not enough, the most recent report by the United Nations Framework Convention on Climate Change (UNFCCC) reveals it has become less likely to cap (through emissions management) rising temperatures at the proposed 1.5 degrees Celsius. Without this target and at 2.0 degrees Celsius, small islands such as ours will be under water by 2100.

On a more positive note, growth in the ECCU has picked up having recovered to approximately 2.7 per cent last year, and is projected to increase to 3.1 per cent this year (well above the 2.0 per cent projected for the Caribbean) **(Slide 4**). That said, you would observe that the ECCU is still well below our target of 5.0 per cent per annum.

In terms of the Ease of Doing Business Index, the Bank’s aspiration for the ECCU is to break into the top 50. Regrettably, the average ranking of the ECCU, already low, has slipped even further and is now 121st out of 190 countries **(Slide 5**).

In respect of fiscal and debt sustainability, the ECCU has had a slight reversal in its march to reach a Debt/GDP Ratio of 60.0 percent by 2030 **(Slide 6)**. This may be partly attributable to post-hurricane reconstruction.

In terms of financial stability, our financial system is stable, however, **the high level of non-performing loans (NPLs) currently averaging 11.2 per cent, more than doubles the international benchmark of 5.0 per cent and remains a source vulnerability in our financial system (Slide 7).** I should mention here that within the banking sector, the NPL ratio is 11.5 per cent, while within credit union sector, the NPL ratio is about 9.0 per cent. Persistently high NPLs serve as a drag on credit expansion, an essential fuel for economic activity.

When we take a closer look at the credit scene within the banking system, we observe that less than half of all credit supports the productive sectors **(Slide 8).** This situation, though not new, requires urgent redress. Moreover, we are witnessing significant accumulation of household debt including credit card debt, which is now estimated to be around $300 million in the ECCU. This debt situation presents a risk to both financial and fiscal stability and (might I add), mental stability. In this regard, the ECCB has intensified its financial education effort.

In its most recent review of the Currency Union, the IMF highlighted the following issues for attention (**Slide 9**)**:**

- Fiscal responsibility frameworks;
- Ex-ante resilience and investment in resilient infrastructure;
- Regulatory framework for financial sector; and
- Structural reforms to improve competitiveness: – energy, labour market and education and skills.

Before I move on, it would be remiss of me not to acknowledge the political economy issue that arises for our governments’ investments in resilience. Smart fiscal policy demands tradeoffs and that is where we run the greatest risk of inaction. The hard truth is that large upfront costs for adaptation have returns that go well beyond a typical five-year political cycle. Given that reality, and the limited fiscal space of our governments, there is a danger, often a tendency to focus on projects that can deliver immediate payoffs. That said, I remind all that it only takes one storm (in a few hours) to erase short-term investments. As a practical matter, our policymakers would do well to find the appropriate balance and invest in resilience.

Some ECCB Initiatives

In light of the foregoing, at least two questions arise:

1. *What can we do to elevate our current growth trajectory? and*
2. *What is the ECCB doing to help build resilience and effect socio-economic transformation?*

I will attempt to answer both questions simultaneously.

Maintaining Our Strong Dollar

For starters, the ECCB continues to maintain our strong and stable currency. As of last Friday, 8 February, the foreign reserves backing of our EC dollar was **98.7 per cent (Slide 10).** As a Currency Union, we are into our 43rd year of monetary resilience. This is remarkable feat and powerful testimony of what is possible when small countries come together.

I now wish to briefly highlight five strategic initiatives being promoted by the ECCB **(Slides 11 -12):**

1. Fiscal Resilience Frameworks

Continuing on the building resilience theme, I again make a clarion call for the adoption of fiscal resilience frameworks hitherto referred as fiscal responsibility frameworks by all governments. **Building fiscal buffers ought to be the starting point for smart fiscal policy in the Caribbean.** I commend Jamaica, Grenada and more recently The Bahamas for their commitment to such a framework. I anticipate others including Barbados and Saint Lucia will follow soon.

During the ECCB's hosting of the Paris Forum last April, we advocated for the full adoption of hurricane clauses in debt instruments of Small States. Some of you may recall that Grenada pioneered the use of such a clause in 2014 and 2015. That call was endorsed by the G7 and I especially wish to recognise the support of Canada in this regard. Subsequent to the G7 endorsement (political support), I wrote the heads of both the IMF and The World Bank seeking their leadership and technical support to advance state contingent debt instruments as part of building fiscal resilience for Small States. I also secured the endorsement of the Caribbean Community Council for Finance and Planning (COFAP). I am pleased to report that our request was considered favourably by the IMF and World Bank. Indeed, a term sheet for debt instruments with hurricane clauses has now been developed by the International Capital Markets Association to facilitate its use by sovereigns and was presented at the IMF High Level Forum on the Caribbean, last November. The next step is to incorporate these terms in our new debt instruments (as per collective action clauses, which were introduced in 2002 and are now accepted worldwide).

2. ECCU Credit Bureau

A sustainable credit cycle requires both responsible lending and responsible borrowing. The ECCU credit bureau is a missing piece of infrastructure in our financial system. Its establishment will improve credit underwriting by financial institutions, encourage responsible borrowing and could improve access to credit for under-served segments.

The Harmonised Credit Reporting Bill is the enabling legislation. To date, this legislation has been enacted in St Vincent and the Grenadines, Grenada, Antigua and Barbuda and St Kitts and Nevis. We urge all member countries to pass it by March 2019.

3. Eastern Caribbean Partial Credit Guarantee Corporation

As we speak, bankers' reserves held at the ECCB total $3 billion ($2 billion in excess of the reserve requirement, which is 6.0 per cent of total deposits). Simultaneously, small businesses continue to lament lack of access to credit.

To this end, we propose to launch, later this year, the Eastern Caribbean Partial Credit Guarantee Corporation. Essentially, it will provide a 75.0 per cent guarantee to participating financial institutions for loans up to $300,000 and is intended to help deploy some of the excess liquidity in our financial system.

4. Fintech Pilot

As present, about 80.0 per cent of all transactions in the ECCU are paper-based (cash or cheques). Furthermore, payments are still too slow and too expensive. This pilot, using blockchain, will test the feasibility of the use of a digital EC dollar (not a cryptocurrency) for certain payments thereby making them faster and cheaper and boosting overall economic activity.

5. ECCU Electronic Conveyancing System Project

When we examine the Ease of Doing Business Index, we see that our region ranks very low on registration of property. Our vision for the ECCU is a modern legal and regulatory framework for land registration. Indeed, we wish to see electronic conveyancing across all countries in the ECCU. To that end, a harmonised Land Registration Bill has now been drafted. Indeed, this is essential infrastructure for the ECCU to truly become a single space. The Report and Bill have been posted on our website and we have invited comments. Kindly peruse and let us hear from you. This is a fine example of the type of the reform that is required for socio-economic transformation.

Conclusion

In conclusion, I wish to recognise the hard work of the planning committee for this event and all colleagues who have contributed. Please join me in giving them a round of applause.

I invite us to engage fully in today discussions and to leave here determined to make a difference in our quest for socio-economic transformation. In my humble estimation, concerted and collective action is our only pathway to shared and sustained prosperity.

God bless you all.

I thank you.

References:

World Economic Outlook, January 2019

Caribbean Drought Bulletin, January 2019 edition

United Nations Framework Convention on Climate Change (UNFCCC) Report, 2018

2019 Ease of Doing Business Report, World Bank Group

ECCB Strategic Plan 2017-2021

IMF Executive Board 2018 Discussion on Common Policies of the ECCU, January 2019