

EASTERN CARIBBEAN CENTRAL BANK
2011 Eastern Caribbean Currency Union Economic Review
By The Honourable Sir K Dwight Venner
Governor, ECCB

Fellow citizens of the Eastern Caribbean Currency Union, we meet at a time of considerable uncertainty in the global economy, a time when we are confronted with major challenges but also with unique opportunities to adjust and transform our economies into competitive self-sustaining entities.

In this presentation, we will identify some of the major issues at the international, regional and national levels which have affected, and will continue to affect the development of our economies. We will then discuss our response to the challenges and set out a framework for addressing the long-run growth and development prospects for our countries in a rapidly changing environment.

The global economy to which the fate of our economies is intimately linked has been severely impacted by:

1. The 2008-2009 financial crisis which originated in the financial sector of the United States;
2. A prolonged decline in demand triggered by low rates of growth, high levels of unemployment and sovereign debt, fiscal imbalances and financial sector fragility experienced by the United States, the United Kingdom, Japan, and the European Union;
3. Dramatic upheavals in the socio-political climate of the Arab Spring in which waves of protest in the Middle East by a younger generation have seen the overthrow of several authoritarian

EASTERN CARIBBEAN CENTRAL BANK
2011 Eastern Caribbean Currency Union Economic Review
By The Honourable Sir K Dwight Venner
Governor, ECCB

regimes and continued pressure on others to accept democratic principles and institutions.

In the midst of this economic and financial turbulence which has led to political and social unrest in the advanced countries, one can observe some emerging changes in the rest of the world:

- A new group of emerging economies led by China is coming to the fore and exercising an increasing influence over the global economy.
- The basic capitalist model of free market forces is being challenged by a new and more potent form called state capitalism which is being employed by the emerging economies.
- Countries with important commodities and other natural resources have made significant progress by satisfying the demand of the Chinese economy which requires such raw materials to support their economic growth.
- Countries with large populations which provide significant domestic markets for consumer and capital goods are attracting an increasing share of foreign direct investment.
- The potential and actual poles of growth in the global economy are now the so-called BRICs, that is, Brazil, Russia, India and China. In addition, many countries in Latin America and Africa are benefitting from the raw materials boom. A number of countries such as Indonesia, Vietnam, Nigeria, and Turkey, are picking up in growth performance.

EASTERN CARIBBEAN CENTRAL BANK
2011 Eastern Caribbean Currency Union Economic Review
By The Honourable Sir K Dwight Venner
Governor, ECCB

Such factors will continue to affect the development of our economies, governance structures and societies.

It is interesting to note that while the countries of the Eastern Caribbean Currency Union are historically and economically linked to the advanced countries, they are not in the category of countries identified as potential growth areas because of their small size and lack of valuable commodities.

The performance of our economies over the last three years clearly illustrates this fact. The region as a whole, that is the CARICOM, did not perform well. To quote a recent paper by the IMF *"The region was growing less on average before the crisis, was impacted more during the crisis, and has recovered less after the crisis."* With respect to the ECCU countries, another finding of the IMF was that they have been disaster-prone with more than half of their output fluctuations attributed to external and climatic shocks.

Although the performance of the ECCU economies over the past year has seen an easing in economic contraction, the fact remains that these economies have remained in recession over the last three (3) years.

Economic activity contracted by 5.7 and 2.2 per cent in 2009 and 2010 respectively, followed by a decline of 0.6 per cent in 2011. Clearly, unemployment rates and poverty levels would have been negatively affected. The tourism sector performed slightly better than in the previous year with growth of 4.6 per cent being recorded but still remaining below pre-crisis

EASTERN CARIBBEAN CENTRAL BANK
2011 Eastern Caribbean Currency Union Economic Review
By The Honourable Sir K Dwight Venner
Governor, ECCB

levels. Construction activity remained low, contracting by 5.6 per cent, as public sector capital projects and private sector activity slowed. Output in the banana industry was severely impacted by unfavourable weather conditions which resulted in a fall of 76.6 per cent in banana receipts in 2011. The performance of the manufacturing sector was also poor with a 1.0 per cent contraction in growth being recorded.

Financial sector developments were also challenging and in the banking sector, the ECCB, on the directives of the Monetary Council, intervened in the ABI Bank which was experiencing a severe liquidity situation. In the insurance sector the issue of the CLICO and BAICO insurance companies remains. Both have been put under judicial management and solutions are being worked out through the continuing efforts of the ECCU member governments and in discussions with the governments of Trinidad and Tobago and Barbados. The credit union sector also has its issues related to the exposure of several institutions to CLICO and BAICO and governance and financial challenges at others.

With respect to the monetary variables, growth in credit remained below historical norms at 1.0 per cent, but this was an improvement over the 2.0 per cent decline recorded in 2010. Non-performing loans however increased, leading to further tightening in the terms and conditions offered by commercial banks. Meanwhile, total deposits rose by 3.0 per cent, a marginal improvement over the 2.0 per cent increase in the previous year. Currency in circulation increased by 5.0 per cent following contractions in the two (2) previous years.

EASTERN CARIBBEAN CENTRAL BANK
2011 Eastern Caribbean Currency Union Economic Review
By The Honourable Sir K Dwight Venner
Governor, ECCB

The consolidated fiscal operations of the central governments were estimated to have incurred an overall deficit of \$551m in 2011, compared with \$336m in 2010, when there was a significant increase in grants and official inflows. The performance of the governments' revenue in the past three (3) years shows a gradual improvement and in 2011 a 4.4 per cent increase was recorded following growth of 1.5 per cent in 2010 and a contraction of 8.0 per cent in 2009. With respect to governments' expenditure, there has been an attempt to contain it but this has not been an easy task in light of the crisis. Over the year the debt to GDP ratio remained virtually unchanged at 83.4 per cent.

The ECCU trade balance widened by 3.0 per cent in 2011, while there was a decline in the overall balance of payments.

The response of the ECCU has followed the elements of the Eight Point Stabilisation and Growth Programme. All member governments have adopted international best practices for financial management and three (3) countries have acceded to IMF programmes. ECCU governments, in order to monitor their fiscal performances have set annual targets in relation to the primary balance and the debt to GDP ratio and most countries have adopted the VAT. With respect to debt, countries have approached the Paris Club for rescheduling and some element of improvement in their credit terms. Others have engaged in debt restructuring exercises with their creditors involving difficult discussions and negotiations, which it is hoped will result in an improvement in the situation for both the government and the creditors. The Monetary

EASTERN CARIBBEAN CENTRAL BANK
2011 Eastern Caribbean Currency Union Economic Review
By The Honourable Sir K Dwight Venner
Governor, ECCB

Council's Sub-Committee on Debt has been working on this issue and two major thrusts have been put forward:

- The need to advance the development of the Regional Government Securities Market (RGSM) to provide a stable platform for government borrowing, and
- Joining with other small, middle income countries to petition the international community for an effective debt strategy to enable them to grow without the encumbrance of such heavy debts.

In the case of the banking sector, in addition to the intervention of ABI Bank, the Council has established a new institution, the Resolution Trust Corporation, to assist in the restructuring of the banking sector in cases which warrant this action.

The policy arrangements for addressing the issues facing the region have been underpinned by a number of broad initiatives. There is first of all the OECS Development Strategy being spearheaded by the OECS Secretariat, which is to be the counterpart of the national strategies of each country.

Three (3) Commissions have been established by the Council as follows:

- The Commission on Tax and Tax Administration Reform,
- The Commission on Pension and Pension Administration Reform and;
- The Public Expenditure Review Commission.

EASTERN CARIBBEAN CENTRAL BANK
2011 Eastern Caribbean Currency Union Economic Review
By The Honourable Sir K Dwight Venner
Governor, ECCB

Two (2) Task Forces have also been set up by the Council as follows:

- The Task Force on Debt, Growth and Development and
- The Task Force on the ECCU Financial Sector.

The Task Forces are headed by the ECCB with representation from the Ministries of Finance, the OECS Secretariat, the CDB, IMF and The World Bank.

It is very clear from our current situation that what is called for is a fundamental restructuring of the ECCU economies at the individual and collective levels. We have small, open, vulnerable and disaster-prone economies which are lagging in the Latin American and Caribbean region in growth, competitiveness, macro variables such as fiscal and debt, the doing business index, and other critical elements in the Global Competitiveness Index. We require a new strategy to address our structural challenges, which is the opportunity that the current crisis presents.

This situation requires a bold step similar to that which occurred when the People's Republic of China decided to move from a Marxist economic system to a capitalist one, which has proven to be a case of successful experimentation based on pragmatism. In our case, the move would be from single-country economies to a multi-country economy, as provided for in the Revised Treaty of Basseterre.

EASTERN CARIBBEAN CENTRAL BANK
2011 Eastern Caribbean Currency Union Economic Review
By The Honourable Sir K Dwight Venner
Governor, ECCB

This brings us to the major issue which we face - the strategy for the fundamental restructuring of the economies to address the long-run growth and development issues. A mature and intense discussion on these issues must take place, given the fact that we have well entrenched liberal democratic systems which have proven to be significant assets for us. However, we are limited by the restrictions of short-term electoral cycles which mitigate against serious long-term planning. Economic development is a dynamic and long-term process which is always in transition. We will therefore have to find the means to achieve social and political consensus on our long-term goals as an economic union.

The first order of business is to have consensus on what kind of economies we would like to aim at and have progressed toward by 2020, the timeframe envisaged for substantial achievement of our development objectives. These objectives will have to be carefully spelt out in terms of growth, employment and the bench mark of the Human Development Indices (HDI). We then need to develop the appropriate policies, bearing in mind that in developing countries such as ours, policymaking is a cross between an art and a science and involves making judgements and correcting mistakes.

We will have to experiment with the process of integration as we have identified it as the basic strategy for treating with our fundamental structural problems. Our economies must be integrated at the national level and across countries. The ECCU must then be effectively integrated into the wider regional and international systems so that we can align ourselves to the growth

EASTERN CARIBBEAN CENTRAL BANK
2011 Eastern Caribbean Currency Union Economic Review
By The Honourable Sir K Dwight Venner
Governor, ECCB

poles which present themselves as we shift to more flexible economic structures.

The Treaty establishing the Economic Union in its legislative arrangements allows for the incorporation of the opposition, government and the public into the processes and this can provide a forum for consensus building. There must also be provision for a policy framework and architecture to manage the newly created single space. Four (4) areas are critical to the success of the process and they are:

- A political framework that addresses the dual system of government and governance that must be put in place.
- The modernization of the regional and national public services to effectively and efficiently execute the policies which are set.
- The development of the private sector to operate across the length and breadth of the economic union and to transform itself into a sector which can be regionally and internationally competitive so that it can be a major foreign exchange earner.
- The development of a vibrant and innovative money and capital market system that can mobilize savings from both national and external sources and can efficiently allocate funds to the most productive enterprises. Within the single financial space there will have to be the rationalization of the financial institutions to facilitate financial stability and to promote growth and development.

EASTERN CARIBBEAN CENTRAL BANK
2011 Eastern Caribbean Currency Union Economic Review
By The Honourable Sir K Dwight Venner
Governor, ECCB

The nature and scope of this initiative is daunting but critical to our survival and success in the changed world in which we now exist. It is urgent that we start a major public discussion on these issues at all levels in our countries. Without a clear understanding of what is at stake and the role which the critical sectors, namely, the government, the private sector, and civil society would have to play, we will not succeed.

With respect to the growth and economic development of the ECCU, member governments have identified the period of adjustment from January 2012 to December 2014 and that of transformation of the economies and the creation of a fully functional economic space from January 2015 to December 2020.

To this end, member governments would continue to intensify the implementation of measures under the Eight Point Stabilisation and Growth Programme; collaborate on addressing the debt issues in the ECCU; and accelerate the process for the passage of the relevant legislation to facilitate the creation of the single economic and financial space.

In conclusion, after three years of recession and in the face of the current circumstances, we have no other viable option but to seize the opportunities provided by the Revised Treaty of Basseterre to create new political and economic arrangements to secure the future of the people of the Eastern Caribbean Currency Union. The adjustment and transformation process is not going to be easy, but as Louis Brandeis reminds us: "Most of the things worth doing in the world had been declared impossible before they were done". So let

EASTERN CARIBBEAN CENTRAL BANK
2011 Eastern Caribbean Currency Union Economic Review
By The Honourable Sir K Dwight Venner
Governor, ECCB

us continue to work together as citizens, business men and women and policy makers to prevail and achieve economic prosperity for our region.

Thank you and good night!