

Sir K Dwight Venner: The ECCU economy in 2004 and prospects for 2005 and beyond

Presentation by Sir K Dwight Venner, Governor of the Eastern Caribbean Central Bank, St. Kitts, 25 January 2005.

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Introduction

Good Evening, Ladies, Gentlemen, and 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 the New Year.

I welcome this opportunity to address you on the economic performance of the CURRENCY UNION in 2004, as well as to share with you the Bank's views on the prospects we face in the year 2005 and beyond.

We live in a fast changing environment characterised as the INFORMATION AGE. The political, social and economic development of the international community, and the nations which belong to this community, are influenced by the access to information. Information, because of the revolution in information technology and telecommunications, is now potentially more accessible to the public in its various forms, namely print, audio or video. The means of communication have also been expanded by way of methods such as newspapers, radio and television, the internet, and public and private meetings.

This new environment requires certain reciprocal responsibilities in a democratic society. Information made available to the public must be TIMELY, ACCURATE, and COMPREHENSIVE and every citizen must be sufficiently literate and motivated to access and make use of this information. This must be the case if we are to expand our range of choices, and make suitable decisions involving our own welfare.

Central Banks, and the ECCB is no exception, have the responsibility, given their position in the economic system, to provide economic and financial information of the highest quality so that their governments, business enterprises, trade unions and individuals can make well-informed decisions, which can facilitate economic growth and socio-economic development.

On this note, I would like to make an appeal to governments, the private sector and the public, to work together to develop our statistical services so that we can have at our disposal, the kind and quality of information which will facilitate our development. In the case of the governments, this means allocating the necessary financial and human resources, so that timely, accurate and comprehensive statistics can be available, to enhance policy-making. In the case of the private sector and individuals, it implies providing the information required from them by the statistical services, in a timely and accurate manner, and supporting the call for the timely publication of this data.

I conclude these opening remarks by stating simply that, information is the OXYGEN of all modern economies.

The domain of the Eastern Caribbean Currency Union

As essential background to this presentation, it is necessary to identify the DOMAIN of the Eastern Caribbean Currency Union. It comprises eight countries, which have in common, the use of the EC dollar as their currency. These countries have a combined area of 1,163 square miles, with a population of approximately 600,000 people. The total output, measured by the Gross Domestic Product (GDP) of the Union for 2004, was estimated at \$8.8 billion, with a capita income of \$14,844.

The total exports of goods and services for 2004 was \$4.5 billion. Of this total, commodities contributed twelve per cent, and tourism services sixty-three percent.

The foreign exchange reserves of the ECCB provide a 96 per cent cover for the currency, well above the requirement of 60 per cent stipulated in the ECCB Agreement, 1983.

The currency in circulation at the end of December 2004 was \$663 million, while the commercial banking system held deposits of approximately \$12 billion, and loans of over \$8 billion.

It is important to portray the concept and inclusiveness of the currency union through the aggregates I have highlighted, since these serve to illustrate that the whole is greater than the sum of its individual parts. One of the concrete and beneficial manifestations of this fact has been our ability to maintain the value of our currency at EC\$2.7 to the US dollar, for the last twenty-eight years, despite the many difficulties faced by our member countries individually.

It is against this background that we examine the economic performance of the currency union in 2004.

The economic performance of the Currency Union in 2004

Growth

The currency union experienced positive growth for 2004 estimated at 4.1 per cent. This can be attributed to the performance of the tourism industry, which recorded a significant increase in both stay-over and cruise-ship arrivals. Our analysis indicates that the performance of this sector was due to increased buoyancy in the economies of our major tourist markets, namely the United States of America, the United Kingdom and Europe; the depreciation of the US dollar relative to sterling and the euro; intensified marketing efforts; and increased airlift.

Banana output rebounded during the year, but one has to take into consideration the major fall in output in the previous year. The factors which contributed to this improved performance were: an increase in the acreage under cultivation, favourable weather, and investment targeted at improving quality and productivity. The other major agricultural export commodities had varying fortunes, as the output of nutmeg and cocoa increased, but sugar production fell.

The construction sector was buoyant in 2004 as investments in both the public and private sectors increased. These investments covered such projects as airport construction, road building, residential and commercial buildings, hotel construction and refurbishment, and activities related to the tourism industry.

The manufacturing sector continued the sluggish trend it has been experiencing over the last few years, as the sector continued to face competition from lower cost producers in other countries.

Inflation

Inflation, as measured by the change in the Consumer Price Index, showed increases in all member countries in 2004. These were triggered by higher prices for fuel, and the increasing scarcity of major commodities such as cement and building materials, as the China effect, that is, the rising demand for commodities by that country, impacted global price structures.

Central governments' fiscal operations

With respect to the Central Governments' fiscal operations, a current account deficit of \$47 million was recorded at the end of November 2004, in contrast to a deficit of \$61 million in the corresponding period of 2003.

Based on preliminary data, the total outstanding debt of the combined public sectors in the currency union continued to increase in 2004, reflecting higher external borrowings by central governments. Debt service payments have risen significantly, and increasing debt to GDP ratios require resolute action by governments, to bring them back in line with the agreed benchmarks set by the Monetary Council.

Monetary aggregates

Monetary liabilities, namely currency in circulation and private sector deposits, rose during 2004 to over \$8 billion at the end of December, reflecting the expansion in economic activity in the currency union.

Domestic credit also increased during the year reflecting growth of six per cent in loans to the private sector. Liquidity in the commercial banking system remained at high levels during the course of the year.

Notable events in 2004

Three notable events affected our member countries during 2004. In Dominica, which is currently under an IMF programme, there are signs of significant improvement in the fiscal accounts, and a return to positive economic growth. In Antigua and Barbuda, a change of government after almost three decades, has been accompanied by an apparent change in stance towards fiscal policy and debt management.

In Grenada, the devastation wrought by Hurricane Ivan has reversed what had been a very robust growth performance of over five per cent. There has, however, been a very focused approach to reconstruction, with the assistance of both the regional and international communities. This should bear fruit in the coming years.

All in all, 2004 can be described as a year of moderate growth, despite the major set back in Grenada.

Prospects for 2005 and beyond

Looking to 2005 and beyond, one has to make certain assumptions about the prospects and possibilities, given two alternative scenarios. In the first scenario, we can continue on our present path with the same policies and hope, that as in 2004, we will have favourable outcomes. The alternative scenario would be to pursue more active policies to lock in the gains from 2004, and to build on these to achieve some critical development objectives.

Using the first scenario, the prospects are that growth will continue to be positive, based on a favourable international economic environment, and continued growth in tourism and construction activity. The prospects for the tourism industry look very promising, with increased activity in both the stay-over and cruise sectors.

There are also a number of projects in both the public and private sectors that are linked to the tourism sector directly, or are derived secondarily from activities in this industry.

There is, however, an urgent need for the alternative scenario to be seriously considered, as the currency union is faced with major challenges from both external and domestic factors, which could threaten the continuation of growth.

The external factors which could affect us would include: high oil prices, an increase in international interest rates, the impact of changes in trade regimes such as those connected with the WTO, the FTAA, the European Union, and the CSME, and the performance of the US dollar against other international currencies.

The domestic factors would be the fiscal and debt issues, and the need for increased productivity and competitiveness.

The countries of the ECCU need to revisit the five objectives set by the OECS Authority in November 2002. These are -

- A growth rate of six per cent;
- A reduction in unemployment levels to at least six per cent;
- A reduction in poverty levels to at least six per cent;
- The maintenance and improvement of their Human Development Indices; and
- The transformation of the economies into highly productive, adaptable and competitive entities.

The Authority identified a number of policy instruments which were available to facilitate the achievement of these objectives. They included—

- Monetary and Fiscal Policies;
- Incomes and Structural Policies; and
- Trade and International Economic Relations Policies.

The OECS Authority has also agreed that its member countries should –

- Increase the levels of functional cooperation;

- Move to higher levels of economic integration, through the establishment of an economic union; and
- Facilitate these two processes by revising the Treaty of Basseterre, to establish closer political union among the member countries.

These matters raise interesting challenges for our countries to become and remain competitive in a rapidly globalising world in which countries and regions are discussing and entering into closer economic and functional cooperation arrangements. Such trends towards closer cooperation have manifested themselves in the European Union, between the major states of West Africa, in Latin America and in Asia.

The countries of the currency union and the OECS have already achieved a high level of integration with a common judiciary, a common currency and central bank, joint foreign representation, a common directorate of civil aviation, pharmaceutical procurement, telecommunications regulation, banking regulation, and close collaboration in health, education and security matters.

The point, which is being made here, is that most countries have realised the necessity for some form of closer collaboration in addressing the global challenges which lie ahead. Our countries, which are among the smallest in the international community, and which have already made substantial progress in this area, must increase the level of collaboration significantly. They must then use the increase in size and critical mass as a platform for maintaining the current rate of growth, addressing the pressing fiscal and debt problems, and restructuring the economies to make them more competitive so that they are capable of sustaining high rates of growth over long periods of time.

The achievement of a consistent level of real growth at the six per cent level would be critical for increasing income levels, lowering unemployment and reducing poverty.

Under the umbrella of a wider economic and financial space within the currency union, it would be easier to effect public sector reform, financial sector reform, and private sector development. Significant investments could be made in the health and education sectors and social safety nets. The tourism industry would seem to be the major catalyst for growth, which would be most effective if the linkages could be made with agriculture and light manufacturing. Finance, and information and communication technology will be critical sectors, representing high technology activities, which would complement and be supportive of the traditional sectors.

Conclusion

In conclusion, one could state that the prospects for 2005 and beyond are challenging, but quite within the capabilities of our countries, if we apply the appropriate version of the alternative scenario. However, it is necessary for our progress, that all sections of our community - the government, private sector and citizens - accept their specific responsibilities in this regard. The governments have the responsibility for providing the environment in which economic and social development can take place, and the rights of individuals are protected. The private sector, particularly in this new era, to produce goods and services, which are internationally competitive. The citizens, to participate in political, social and economic activities, which lead to the development of the society.

There are two particular examples I would want to bring to your attention. First, in the demands made by citizens on governments, we must be aware of the fact that these are financed by taxation on the public. Second, in the case of loans made by banks, we must realise that these are made out of the deposits of other citizens.

We need to have a knowledgeable and responsible community which, in the face of the challenging domestic and external environment, makes judicious and objective choices, to achieve our ultimate goal which is the welfare of our people.