

Sir K Dwight Venner: A broadbrush picture of the Eastern Caribbean Central Bank

Presentation by Sir K Dwight Venner, Governor of the Eastern Caribbean Central Bank, on the 2003/04 Annual Report, Basseterre, 21 June 2004.

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The presentation of this report on the operations of the Bank during the fiscal year 2003/2004 is in accordance with Article 48 (1) (b) which requires the institution to transmit such a report to each of the Participating Governments and to publish it. The Monetary Council has also agreed to this formal presentation to ensure that the public would be properly informed and educated on critical aspects of the Bank's operations and its impact on the economies of the Currency Union.

The Eastern Caribbean Central Bank has its origins in the Treaty of Basseterre, June 18 1981, establishing the Organisation of Eastern Caribbean States. Article 3 outlining the Purposes and Functions of the Organisation states in Section 2 (1) -

"to this end the Member States will endeavour to coordinate, harmonise and pursue joint policies particularly in the field of Currency and Central Banking."

PREAMBLE (ECCB Agreement 1983)

The Treaty of Basseterre 1981 was followed by the Agreement establishing the ECCB in 1983. The Preamble states:

"An Agreement made on the 5th day of July 1983 between the Governments of Antigua and Barbuda, The Commonwealth of Dominica, Grenada, Montserrat, Saint Christopher and Nevis, Saint Lucia and Saint Vincent and the Grenadines (hereinafter referred to as the Participating Governments)"

Whereas it is desired to maintain a common currency to establish a Common Central Bank with powers to issue and manage that currency, to safeguard its international value, to promote monetary stability and a sound financial structure, and to further the economic development of the territories of the Participating Governments."

Anguilla became a full member of the ECCB in April 1987.

The ECCB has distilled its goal and mission statements from the preamble and has defined its ultimate goal as being to contribute to the balanced growth and economic development of its member states, while its mission statement is *"to maintain the stability of the EC dollar and the integrity of the banking system in order to facilitate the balanced growth and economic development of its member states."*

The ECCB after deep reflection at every level of the institution - Monetary Council, Board of Directors, Management and Staff - has outlined its aspirations as an institution as follows:

1. to be one of the leading institutions for policy research and advice;
2. to be a model for the practice of modern management methods;
3. to be an advocate for ECCU and OECS regionalisation initiatives.

The Governance structure and arrangements of the Bank comprises three elements:

- (a) The Monetary Council which is composed of the Ministers of Finance of the member countries. This is the highest decision taking body of the Bank and Article 7 (2) states that -
- (b) *"The Council shall meet not less than twice each year to receive from the Governor the Bank's report on monetary and credit conditions and to provide directives and guidelines on matters of monetary and credit policy to the Bank and for such other purposes as are prescribed under this Agreement."*
- (c) The Board of Directors which subject to Article 7 shall be responsible for the policy and general administration of the Bank.
- (d) According to Article 9 (4 and 5) the Governor shall preside as Chairman at the meetings of the Board; serve as Chief Executive Officer of the Bank to be in charge of and responsible to the Board for the implementation of the policy and the day to day management of the Bank.

The Bank has established three formal Consultative arrangements with the following:

- (a) the Ministries of Finance in keeping with Part IX of the Agreement - Relations with Participating Governments;
- (b) the Commercial Banks in keeping with Part VIII of the Agreement - Relations with Financial Institutions;
- (c) the Private Sector through a Private Sector Consultative Group as approved by the Monetary Council.

The Bank has made networking arrangements with institutions and agencies within the public and private sectors in the Currency Union.

The Bank is also committed with the full support of the Council and the Board to a full programme of public education and information on economic and financial matters.

The principal role of the ECCB is to be the central monetary authority of the ECCU. Its responsibilities are therefore to ensure the achievement of the purposes of the Bank as set out in Article 4 of the Agreement as follows:

- (1) to regulate the availability of money and credit;
- (2) to promote and maintain monetary stability;
- (3) to promote credit and exchange conditions and a sound financial structure conducive to the balanced growth and development of the ECCU economies;
- (4) to actively promote through means consistent with its other objectives the economic development of ECCU countries.

The setting of objectives for both the short term and long term are critical for all institutions, including central banks.

The manual of *“Good Transparency Practices for Monetary Policy by Central Banks”* sets out three (3) transparency practices which are critical to the setting of policy objectives. They are -

1. Clear specification of the processes for formulating and reporting monetary policy decisions;
2. Public availability of information on monetary policies;
3. Accountability and assurances of integrity by the central bank.

This formal presentation of the Bank's annual operations and the publication of its audited accounts is in keeping with these requirements.

The Bank also proposes to set out a list of objectives at the beginning of each financial year as contained in its Annual Report which will guide its operations for the ensuing year. These objectives will be derived from the following:

1. The scope of the ECCB Agreement;
2. The past decisions and directives of the Council;
3. An analysis of the economic policies of Member Governments;
4. The perceived sentiments of the public;
5. The independent research and analysis of the Bank.

Arising from these reviews the five (5) major operational objectives of the Bank have been identified as follows:

1. Monetary stability as represented by the maintenance of the external and domestic value of the currency;
2. Financial stability as represented by the safety and soundness of the banking and financial system;
3. The development of money and capital markets as represented by the creation of new currency union wide financial markets, products, and institutions;

4. The regulation of money and credit to provide short, medium and long term finance at the appropriate prices, volumes and maturities;
5. The active promotion of economic development through policy research and advocacy.

A review of the year 2003/2004 shows that the total assets of the Bank grew from EC\$1,617 billion in March 2003 to EC\$1,740 billion in March 2004 with Foreign Reserve Assets moving from EC\$1,455 billion to EC\$1,576 over the same period.

The currency backing was at 97.65% as at 31 March 2004, which represented 8.6 months of imports of goods and services.

Currency in Circulation increased from EC\$478 million in March 2003 to EC\$532 million in March 2004.

The currency maintained its value at 2.7 to the US dollar.

The rate of inflation in the Currency Union averaged 1.8% during the year.

The commercial banking system remained stable with total assets of EC\$13,889.6 million as at the end of April 2004, total deposits of EC\$11,049.1 million, and total loans of EC\$7,679.9 million.

During the course of the year the ECCB was the focal point of a Financial Sector Assessment Programme conducted by a joint team from the IMF and the World Bank, which reviewed areas of risk to the financial system including weaknesses in the regulatory and supervisory framework for financial institutions.

Arising out of this exercise several recommendations have been made for strengthening the regulatory arrangements, some of which have been incorporated in the new Uniform Banking Act.

Work continues to be carried out on improving the Payments System which is critical to commercial and economic activity in the Currency Union.

The ECCB is banker to the commercial banks and effects the exchange of payments mainly through the exchange of cheques. The volume of these activities is extremely high averaging 120,000 cheques, at a value of EC\$311 million per week.

A more efficient payments systems at the level of the ECCB and the commercial bank through a Real Time Gross Settlement System, and the retail level of debit and credit cards and cheques will lower transactions costs and provide increased benefits to the economy.

The money and capital markets initiatives of the ECCB are beginning to bear fruit with two more governments, Grenada and St Lucia coming on to the Regional Government Securities Market, and four more companies listing on the Stock Exchange.

The Eastern Caribbean Stock Exchange (ECSE) is by far the most technologically advanced exchange in the region and the hemisphere, and considerable interest is being shown in accessing it by market players in Jamaica, Trinidad and Tobago and beyond the region.

During the course of the year the ECCB maintained the levels of the two rates of interest over which it has control, namely, the discount rate which was kept at 6.5 per cent and the minimum savings rate which remained at 3 per cent.

The Bank continued to support the member countries in the areas of National Accounts and Balance of Payments Statistics as well as consolidating its own work in the area of monetary and financial statistics.

Given the importance of accurate, regular and timely statistics to the making of good policies, the Bank has committed itself to working with the national statistical offices and external agencies to improve the identification, collection, analysis and management of statistics in the Currency Union.

In the area of fiscal and debt management and economic adjustment, the Bank in collaboration with the Ministries of Finance and Caribbean Regional Technical Assistance Centre (CARTAC) initiated the Structural Adjustment Technical Assistance Programme (SATAP) to address the serious concerns in these areas. The initiative is aimed at creating Policy Units in each Ministry, training staff in the technical work, and producing the country's own adjustment programme to be approved and monitored by the Cabinet.

The Bank also supplied technical and administrative support to the Tax Commission which was established by the Monetary Council to review and make recommendations on Tax Policy and Administration.

The Bank also gave specific support to the Commonwealth of Dominica, in its adjustment programme with both financial and technical assistance. The Bank made two loans available to the country from the Fiscal Tranche and provided technical assistance for prolonged periods in the fiscal and debt areas.

The year 2003/2004 was a very *challenging*, but productive year.

In the year 2004/2005, the Bank, taking into consideration the external environment and domestic circumstances of member countries has set out a programme of activities to respond to these circumstances.

The external environment would take into consideration the following:

- (i) The economic performance of our main trading partners;
- (ii) Movements in the relative parities of our trading partners currencies, in this case the dollar, the euro, sterling and the canadian dollar;
- (iii) Trade arrangements, for example, preferential access to markets as in the case of sugar and bananas;
- (iv) Bilateral investment treaties and direct foreign investment;
- (v) Multilateral and bilateral aid arrangements and concessional flow;
- (vi) Remittances.

The domestic circumstances which are of significance would be -

- (i) The efficient allocation and utilisation of the factors of production;
- (ii) Appropriate development and structural policies;
- (iii) Fiscal and debt management policies and strategies;
- (iv) Appropriate interest rate and exchange rate policies.

The Bank in its programme for the fiscal year 2004/2005 will carefully monitor these factors and pay particular attention in its research programme to the following -

- (a) The external environment and its impact on our reserve position, the competitiveness of the E C dollar and the balance of payments;
- (b) The role of the tourist industry;
- (c) The impact of oil prices;
- (d) Money and credit conditions in the Currency Union.

The Bank will be making a major effort to put in place the recommendations arising out of the FSAP to strengthen the entire financial system in the Currency Union. This will require the fullest cooperation of the national authorities through the establishment of the proposed Integrated Regulatory Units.

The work on the development of money and capital markets will be accelerated with the objective of having a wider range of government securities and shares of private firms on the market.

The efforts at fiscal sustainability and debt management will be stepped up considerably in conjunction and collaboration with the Ministries of Finance.

The current financial year 2004/2005 will be one of great challenges for the Bank and its member countries. However, it is fair to say that the groundwork is being laid for the improved conception, articulation and implementation of policies in the monetary and financial arenas to provide the stability, which can lead on to sustainable and widely distributed development.