

# Governor's Presentation of the 2007/2008 Annual Report

Maltin Moving Conference Centre, ECCB Headquarters, St Kitts  
26 June 2008

Good evening fellow citizens of the Eastern Caribbean Currency Union.

## BACKGROUND

My report on the performance of the Eastern Caribbean Central Bank is presented in keeping with the transparency and accountability requirements mandated by the Monetary Council and Board of Directors of the institution. These requirements call for comprehensive disclosure of the Bank's performance and therefore, in addition to the publication of the audited accounts, the Governor is required to make this presentation which is being aired on radio and television in all of our member territories.

The Bank's performance in financial year 2007/2008 was against the backdrop of significant developments in the global economy. These included:

- The fallout in the US sub-prime mortgage market.
- Spiralling oil, food and commodity prices.
- The continuous slide in the value of the US dollar against other international currencies; and
- Highly volatile financial markets

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Despite the turbulence in the environment, the Bank managed to perform quite creditably and met its objectives over the financial year.

## MONETARY STABILITY

One of the Bank's primary objectives is promoting monetary stability, and in this regard the priorities are:

- Ensuring an adequate supply of currency for all member countries;
- Maintaining the fixed exchange rate peg to the US dollar, in order to achieve confidence in the EC dollar; and
- Managing our foreign currency reserves, in order to achieve maximum returns at minimum risk.

### Ensuring and Adequate Supply of Currency

As the sole issuer of EC currency, the Bank is responsible for meeting public demand for currency in the eight member countries. This responsibility includes transporting and distributing adequate supplies of banknotes and coins to the countries; replacing notes that are no longer fit for circulation; forecasting each country's demand in order to ensure that adequate stocks are always on hand; and storing currency and coins for the financial institutions.

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The Bank encountered two major challenges in this area of our operations. First, the increase in the cost of metal from which coins are minted and the non return of coins to the system led to significant increases in our currency costs. Second, the unreliability of air transport adversely affected the logistics of moving currency between the islands.

During the course of the year the Bank introduced new automated systems to increase the efficiency of our currency arrangements in order to meet the challenges being encountered in this area.

At 31 March 2008, EC currency in circulation totalled 738 million dollars. By comparison the total currency in circulation last year was 706 million dollars.

## Maintaining the Fixed Exchange Rate Peg

The Bank has maintained the fixed exchange rate peg at 2.7 to the US dollar since July 1976. This arrangement remains sustainable as during the course of the financial year the foreign reserve backing ratio remained above the legally stipulated level of 60 per cent and, at 31 March 2008, was 102 per cent. The number of months' imports which the reserves could purchase was approximately seven, which was above the IMF's benchmark of three months.

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The depreciation of the US dollar against other major currencies such as the Euro, Yen, Sterling and Canadian dollar had two impacts. On the negative side, the cost of importing oil, food and commodities from non-US dollar sources went up significantly. On the positive side, Caribbean tourist destinations became more competitive for European visitors.

This foreign currency development is being monitored very carefully by the Bank. However, the position of the US dollar as the major international currency would seem, other things being equal, to be fairly sustainable in the short to medium term.

## OECS Inflation Working Group

As part of the effort to address rising inflation, an OECS Inflation Working Group was established by a mandate given by the Monetary Council at its 60<sup>th</sup> meeting in October 2007. The Inflation Working Group is comprised of representatives from the Eastern Caribbean Currency Union countries, the OECS Secretariat and the Eastern Caribbean Central Bank.

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The Group has met eight times via teleconference to address the matter of inflation on two fronts:

- (i) The causes of inflation and policy responses to address the matter; and
- (ii) The methodological issues associated with the compilation of the consumer price index data in the ECCU.

The collaboration has produced two documents. *Policy Responses to Increases in Consumer Prices in the ECCU*, which details the findings of the Group in respect of the first mandate, was presented to the Monetary Council, at its 61<sup>st</sup> meeting on 08 February 2008. The other document, *Methodological Issues in the Measurement of Inflation*, has been prepared to address the second mandate and is scheduled for presentation to the Monetary Council at its 62<sup>nd</sup> meeting in July 2008.

## Foreign Reserves

The level of foreign exchange reserves increased over the course of the year from \$1.9 billion at 31 March 2007, to \$2.2 billion at 31 March 2008. The Bank met its objectives of preserving its capital, having enough liquidity for its foreign operations and making a reasonable profit.

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## FINANCIAL STABILITY

Another of the Bank's primary objectives is promoting financial stability.

### Regulation and Supervision

The ECCB has been given responsibility under the Banking Act and the Agreement for the regulation and supervision of duly licensed banks and credit institutions. It also has responsibility under an agency arrangement as an executing agency for the Eastern Caribbean Securities Regulatory Commission.

During the course of the year the financial institutions for which the Bank had responsibility posed no threat to the safety and soundness of the financial system. The Bank, however, is well aware of the dangers and threats of financial instability and is working with member governments to establish a comprehensive system of regulation and supervision which includes the non-bank financial intermediaries.

To this end, the governments are in the process of establishing Single Regulatory Units which will consolidate regulatory arrangements for this category of institutions.

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An umbrella arrangement, the Regional Oversight Committee has also been established, comprised of the ECCB, the Eastern Caribbean Securities Regulatory Commission and the Single Regulatory Units to ensure effective coordination and collaboration between the regulatory bodies.

## Payments System

A sound and efficient payments system is a necessary condition for financial stability since it is the channel through which financial institutions exchange all cheque and electronic payments on a daily basis. This is the life blood of the banking and commercial system, as the figures indicate. For example, during the period May to October 2007, the value of total transactions exceeded \$32 billion as compared with \$29 billion for the corresponding period in 2006.

In 2007/2008 the Bank collaborated with member governments to expedite passage of a Payments System Bill, a Money services Bill and a Bills of Exchange (Amendment) Bill, all of which prescribe clear rules for transactions carried out in the system.

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## MONEY AND CAPITAL MARKET DEVELOPMENT

The Bank acting on a mandate conferred by the Monetary Council under Articles 4.3 and 4.4 of the Agreement has embarked on a programme of money and capital market development to fill the gaps in the financial system, and to establish institutions which will facilitate such development.

### Institutions

To this end the Eastern Caribbean Home Mortgage Bank and the Eastern Caribbean Securities Exchange were created and, as affiliates of the Bank, facilitate the development of capital markets. Both institutions enjoyed positive results and have embedded themselves as integral elements of the financial system.

During the course of the year the Bank made significant progress towards the establishment of another critical institution, the Eastern Caribbean Enterprise Fund. This institution will function as a provider of venture capital, debt and technical assistance to both established and start-up enterprises.

On the savings side much thought is also being given to the creation of a unit trust vehicle which will operate at the currency union level.



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Institutionalisation is also taking place in the establishment of industry associations such as the OECS Bankers Association, the OECS Insurance Institute and the OECS Institute of Accountants.

## Market Development

Significant market development is taking place in the Regional Government Securities Market which celebrated its 5<sup>th</sup> anniversary in November 2007. The number of securities issued increased from 30 to 36 and the value from \$665 million to \$696 million over last year. The Government of Saint Lucia issued its first US denominated bond, making it the second ECCU country to issue such an instrument, and the value of securities issued in the market has now surpassed the \$2 billion dollar mark.

The Bank continues to urge member governments to use the RGSM constructively, issuing instruments which range from the 91 day Treasury bill to 15 year bonds in order to give the market depth and breadth and to establish a yield curve which can assist investors in their decision-making process.

On the equities market, Cable and Wireless St Kitts/Nevis became the eleventh company to be listed on the ECSE.

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The Bank has put tremendous effort into understanding and providing the complementarity of financial and private sector development. A compilation of the various private sector representative bodies in the currency union is now being undertaken so that we can create a data base on which to build an entrepreneurial platform.

As a practical matter, the ECCB has brought together a number of interested parties in the areas of agriculture, shipping, retail trades and statutory bodies to discuss the establishment of an export/import company, the OECS Distribution and Transportation Company. This company will facilitate trade within the region and enhance the potential development of OECS products for export to external markets.

## PUBLIC EDUCATION

The Bank has committed a considerable amount of time and resources to its public education efforts. There is a great thirst for knowledge of financial and economic matters in the public arena that needs to be filled with some urgency. To this end the Bank has organized savings and investment courses in each member country which have been consistently oversubscribed. More than 700 persons have graduated from these

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courses and now that they are in full swing, we hope to accommodate at least 1,000 persons each year.

We have also hosted a series of seminars, workshops, conferences and media briefings, and produced numerous publications dealing with economic, financial and central banking issues.

We have increasingly made use of video conferencing - an advanced technological system - to host regional events, and have engaged outstanding international economists to participate in these activities.

In 2007/2008 the Bank launched a Schools' Mentorship Programme, adopting a grade four class in each member country. This initiative is intended to engage these youngsters at an early age and to stimulate their interest in savings and investment.

The ultimate goal of the public education programme is to create a financially literate and knowledgeable society which has the information and is able to use it constructively for its own benefit, and collectively for that of the currency union.

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## THE BANK'S FINANCES

### Compliance with International Financial Standards

Since the financial period beginning 1 April 2004, the Bank has been in compliance with the International Financial Reporting Standards the IFRS, issued by the International Accounting Standards Board. These standards are authoritative pronouncements on how transactions and events should be reflected in financial statements.

The IFRS is the single most important initiative in the financial reporting world and the impact of IFRS reporting stretches far beyond accounting to affect every key financial decision made and how it is reported. The goal is to make international comparisons as easy as possible. The Bank's adherence to such standards is indicative of its commitment to ensuring that it complies with its transparency thrust.

### Financial Performance

The Bank's financial performance in 2007/2008 improved significantly over last year, with consolidated net income of \$52million representing an increase of \$17million.

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Once again the ECCB achieved its primary financial objective of maintaining the ratio of total expenditure to income earned on foreign assets below 100 per cent. The ratio at 31 March 2008 was 73.5 per cent.

The higher than expected interest rates in the USA during the first two quarters of the financial year positively impacted the Bank's overall financial performance. This was largely attributable to the positioning by money managers in higher-yielding short-term money market instruments.

Operating income of 111 million dollars exceeded the budgeted amount by \$26 million.

As at 31 March 2007, the Bank's total assets stood at 2.4 billion dollars, an increase of 15 per cent when compared to the position last year.

## OUTLOOK

All in all, in 2007/2008 the Bank successfully met its targets. Given recent developments in the international economy, we expect 2008/2009 to be another very challenging year for the ECCU. We will continue to focus on improving efficiencies in our operations in order to be equipped to tackle whatever issues may arise.

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In October of this year, the Bank will attain 25 years of service to the people of the region. Notwithstanding the formidable challenges we expect to face, the Central Bank looks forward to the future with confidence.

Thank you and good night.