



Presentation on ECCB 2008/2009 Annual Report
by Sir K Dwight Venner, Governor
29 June 2009

Good evening fellow citizens of the Eastern Caribbean Currency Union.

I present to you in keeping with the transparency and accountability requirements of the Eastern Caribbean Central Bank Agreement Act 1983, a report on the Bank's performance for the financial year 2008/2009 and an assessment of the economy as we look forward to 2009/2010.

We are living in the best of times and the worst of times.

There have been very significant improvements in economic and social welfare over the last three decades. However, the global economy of which we are a part, has been beset by one of the deepest recessions since the Great Depression of 1929 to 1933. This has affected all of the nations of the international community to a greater or lesser degree, but the small and vulnerable countries, such as ours could be the most severely affected.

This situation could however present the opportunity for restructuring and transforming our economies which are experiencing continuous decreases in output and productivity.

Against this background, my comments will be presented in three parts:

1. The performance of the Eastern Caribbean Central Bank (ECCB) for the year 2008/2009;
2. The current economic environment and the major challenges facing the Eastern Caribbean Currency Union (ECCU); and
3. The response by the Currency Union Authorities to these challenges.

Despite the difficulties in the international markets, the Bank was able to net a profit of \$36.8m. Operating income of \$104m exceeded the budgeted amount by \$10.7m. Cost saving measures implemented during the year resulted in operating expenditure of \$67.8m, which was below the budgeted amount of \$71.4m.

As at 31 March 2009, the Bank's total assets stood at \$2.4 billion, a decrease of \$10.5m or 0.4 per cent when compared with the position last year. The decrease was reflected in a reduction of \$132m in foreign assets, which was due primarily to a significant draw down of excess reserves by commercial banks, and a diminution in the market value of foreign securities held in the ECCB's foreign reserve portfolio as a result of the general weakening of the US bond market.

The Bank had to respond to two major issues during the course of the year.

1. The collapse of the C L Financial Group in January 2009, the parent company of Colonial Life Insurance Company (CLICO) and British American Insurance Company, both of which operate in the ECCU; and
2. The run on the Bank of Antigua Limited in February 2009 after negative publicity regarding the owner of the bank and its affiliated entities, resulting from an investigation by the US Securities and Exchange Commission.

In the case of the CL Financial Group, the Bank, though not the regulator of the insurance sector was requested by the Monetary Council to coordinate the efforts towards the resolution of this issue.

An institutional arrangement to address this matter was put in place with the following structure:

- a) A Ministerial Sub Committee of the Monetary Council comprising:
 - The Prime Minister and Minister for Finance of St Vincent and the Grenadines as the Chairman;
 - The Prime Minister and Minister for Finance of the Commonwealth of Dominica;
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- The Minister for Finance of St Kitts-Nevis; and
 - The Minister for Finance of Grenada.
- b) A Technical Team of Insurance Regulators from the ECCU chaired by the representative from Saint Lucia.
- c) A Coordinating Unit at the Eastern Caribbean Central Bank (ECCB).

Extensive discussions have been held with the governments of Trinidad and Tobago, Barbados and The Bahamas to seek a successful resolution of this crisis.

In response to the run on the Bank of Antigua Limited, the ECCB exercised its emergency powers under the Eastern Caribbean Central Bank Agreement Act 1983, and intervened swiftly to restore normality to and confidence in the financial system.

The Eastern Caribbean Central Bank's Monetary Council solicited the participation of five (5) indigenous banks to establish the Eastern Caribbean Amalgamated Financial Holding Company to manage the operations of the Bank of Antigua Limited.

The challenges faced by the Central Bank following these two episodes, underscored the critical importance of adequate supervision and regulation of commercial banks, insurance companies, credit unions and other institutions to ensure the stability of the entire financial system.

As part of a continuing effort to enhance the regulatory and supervisory framework of the financial sector in the ECCU, the ECCB announced in October 2008, the establishment of a Regulatory Oversight Committee comprising representatives of all financial sector regulators in the ECCU, namely the:

- ECCB;
- Eastern Caribbean Securities Regulatory Commission (ECSRC);
- Single Regulatory Units (SRUs) in the member countries.

Since its inception in 2003, the ECCB Savings and Investment Course has been one of the Bank's main tools for equipping ECCU citizens with personal finance and investment skills. In 2008, the Bank increased the number of courses offered. In that year, 617 persons graduated from the course compared with 318 in 2007. As at March 2009, 1,321 persons had graduated from the course. From 2009 the ECCB will be targeting 1,000 graduates per year.

The current economic environment presents major challenges for the Currency Union.

The global crisis has resulted in an estimated loss of value in investment assets of \$30 trillion in international stock exchanges. Major banks in the United States, United Kingdom and Europe have had to be rescued by their governments. Credit has literally dried up in some developed countries and the authorities have had to pump billions of dollars into stimulus packages. Initial jobless claims, a measure of increases in unemployment, have risen significantly, and in the first months of this year showed a four-week average of approximately 600,000 in the United States.

These developments in the international economy have eroded conditions in the ECCU, as inflows of travel receipts and foreign direct investment (FDI) have contracted. Travel receipts fell by 2.5 per cent (\$80.3m) in 2008, in contrast to a 3.0 per cent increase in 2007. Foreign direct investment decreased by 29.1 per cent to \$2.3 billion, consistent with the slow-down in direct investment-related construction activity in some member countries. By contrast an increase of 14.6 per cent was recorded in FDI inflows for 2007. These inflows have accounted for, on average 27.5 per cent and 22.5 per cent of Gross Domestic Product (GDP) respectively from 2005 through 2008. This had a negative impact on central governments' finances and debt. In particular, the central governments realised a current account surplus of \$77.5m (0.6 per cent of GDP), substantially below that of \$303.2m (2.5 per cent of GDP) in 2007; while their total outstanding debt rose by 2.4 per cent to \$9.3 billion (73.2 per cent of GDP).

The real GDP in the ECCU is projected to decline in 2009 and 2010. The projected decline in tourism and construction is over 14 per cent in 2009 and a little less in 2010. Governments' current revenue is projected to fall by approximately 12.9 per cent in 2009.

One can summarise by simply stating the fact, these are difficult and challenging times!

The member states of the ECCU have not been idle in their responses. However, one has to understand that responding to crises, particularly one such as this, takes place by trial and error and is experimental as one is grappling with extreme uncertainty and a large number of unknown factors.

This is very evident from the events unfolding in the United States of America and Europe; even though these two continents possess vast resources and years of experience in the use of a wide range of policy instruments.

The OECS/ECCU countries, starting with a Joint Meeting of the OECS Authority and the Monetary Council on 15 and 16 January 2009, have sought to establish an action plan at the broadest level, to which has now been added a specific Eight Point Programme to address this economic crisis.

The action plan identified three sectors - tourism, construction and fishing which were to be given specific attention for resuscitating the economies.

The ECCU Eight Point Stabilisation and Growth Programme consists of the following elements:

1. Suitably adapted Financial Programmes for each country
 2. Fiscal Reform Programmes
 3. Debt Management Programmes
 4. Public Sector Investment Programmes
 5. Social Safety Net Programmes
 6. Financial Safety Net Programmes
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7. Amalgamation of the Indigenous Commercial Banks
8. Rationalisation, Development and Regulation of the Insurance Sector

The ECCU Eight Point Stabilisation and Growth Programme addresses the following:

1. Financial Programming to address the funding gaps in each country. These programmes have already been prepared and discussions are now ongoing with the International Monetary Fund (IMF) with a view to accessing the maximum funding with the most appropriate conditions to stabilise the economies.
2. Fiscal Reform which involves improving the efficiency of the revenue systems of member governments and rationalising and increasing the added value from government expenditure. This programme is expected to receive funding from the Caribbean Development Bank (CDB) through Policy Based Loans (PBLs), the World Bank through Development Policy Loans (DPLs) and from the European Union Budgetary Assistance programme.
3. Debt Management Systems to facilitate a structured approach to effective debt management, which is being supported by a grant from the Canadian Government to the Eastern Caribbean countries and technical assistance from the IMF and the World Bank.

These first three programmes will spearhead the response to the crisis.

The second three are of critical importance to facilitate the successful execution of the first three.

1. Public Sector Investment Programmes will provide the stimulus for economic activity through quick disbursing projects, which put people to work on public infrastructure projects.

2. Social Safety Net Programmes will provide resources for vulnerable groups in the society. A situational analysis has been completed to identify these groups and donor agencies will now be approached for funding.
3. Financial Sector Safety Nets have become critical since the recent events related to Colonial Life Insurance Company (CLICO), British American Insurance Company Limited (BAICO) and the Bank of Antigua Limited, all of which require significant levels of liquidity support.

Point seven addresses the proposal for the amalgamation of indigenous banks to form a stronger entity which can be more effective in the new environment.

Point eight speaks to the rationalisation of the insurance sector in the ECCU which is now extremely fragmented.

In conclusion, one can only believe that, in these times of great uncertainty, the challenges faced will bring out the best in our people. We need stability, fortitude, unity and a strong sense of purpose to see us through these difficulties. The OECS Treaty and the ECCB Agreement have proved their worth in response to the insurance and banking crises. They have given the stimulus for proceeding speedily to the formation of an Economic Union and the deepening of the integration arrangements in the OECS. We will also, having consolidated our domestic and regional policy arrangements, be in a much better position to engage the IMF, the World Bank and other external institutions in a constructive and meaningful way to ensure our survival and progress.

Thank you and good night.