



Presentation on ECCB 2009/2010 Annual Report

by Sir K Dwight Venner, Governor

29 June 2010

Good evening fellow citizens of the Eastern Caribbean Currency Union.

I am pleased to present, in keeping with the transparency and accountability requirements of the Eastern Caribbean Central Bank, the report on the performance of the Bank for the financial year ended 31 March 2010.

The report will be presented in three parts.

- The policy, operational and financial performance of the institution;
- The challenges facing the Currency Union; and
- The way forward.

The Bank has had to respond to the global economic and financial crisis and its impact on our currency union by concentrating its efforts on financial stability issues and policy advice to address the fiscal and debt management issues facing member countries. We have had to do this, while preserving the integrity of the institution's balance sheet, in order to maintain the stability of the EC dollar.

The Bank was able to realise a net income of \$37 million. During the year, stringent cost-cutting measures were implemented which resulted in a decrease in expenditure of \$6.2 million.

As at 31 March 2010, the Bank's total assets amounted to \$2.5 billion, an increase of 8.1 per cent over the previous year. This increase was mainly attributable to an expansion in the Bank's foreign reserves. The primary source of this expansion was inflows of grants and loans to member governments from international institutions and friendly countries.

The fixed exchange rate established in July 1976 was maintained at 2.70 EC dollars to 1 US dollar. At the end of the financial year, the foreign reserve backing of the currency was 93.93 per cent, which was safely above the legal benchmark of 60.0 per cent. The ECCB maintained the stipulated minimum savings rate at 3 per cent.

In the policy sphere, the main challenge during the year was managing the liquidity in the banking system against the backdrop of declining foreign exchange receipts from tourism, foreign direct investment and remittances. The declines had an impact on the growth performance of the Currency Union with a contraction in economic activity of approximately 7.4 per cent being recorded in 2009.

The Bank put in place special liquidity arrangements to support the banking institutions. These involved closer monitoring of flows within the system and more stringent reporting requirements for the commercial banks. Two special committees were created within the Central Bank to address the liquidity situation and to monitor the commercial banking sector, namely:

- The Liquidity Watch Group, and
- The Recapitalisation Committee.

The Central Bank, in order to ensure that financial stability was maintained in the Currency Union, has had to monitor and coordinate the operations of the following arrangements:

1. Its own credit facilities which are available to both governments and banks;
2. The Inter Bank Market; and
3. The Regional Governments Securities Market.

The ECCB paid particular attention to the Regional Government Securities Market (RGSM) as governments were also severely challenged during the period with respect to their cash flow arrangements. Activity on the RGSM exceeded that of the previous year.

The role of the Eastern Caribbean Home Mortgage Bank (ECHMB) must also be mentioned. This institution which was promoted by the ECCB to facilitate the transformation of long term instruments namely, home mortgages, to liquid cash, has fulfilled its mandate in helping to mitigate the strain on liquidity.

During the year the ECCB has also played a vital advisory and coordinating role in the non-bank sector. Although the Bank has no legal mandate for the regulation of insurance companies and other non-banks, under the aegis of the Ministers of Finance who have the responsibility for such regulation, the Bank has done the following:

- Recommended and facilitated the establishment of sub-committees of the Monetary Council to address issues involving these institutions;
- Provided and identified technical assistance resources;
- Assisted with the drafting of legislation; and
- Functioned as the convenor of meetings of technical groups formed to support the work of the sub-committees of the Council.

The Bank accelerated its work in debt management through a project funded by the Canadian International Development Agency (CIDA). The objective of the project is to address the debt issues of member countries in order to achieve the target, set by the Monetary Council of a debt to GDP ratio of 60 per cent by the year 2020.

Under Article 4 (4) of the ECCB Agreement the Bank addressed the development issues facing member countries by promoting and incorporating two significant institutions, namely, the Eastern Caribbean Enterprise Fund (ECEP) and the OECS Distribution and Transportation Company (ODTC).

The Eastern Caribbean Currency Union will continue to face tremendous challenges over the next few years. The current crisis is not over and we are projecting a contraction in economic activity of approximately 2.4 per cent in 2010. Government

revenues have decreased and there has been a fall in employment and an increase in poverty levels in member countries.

The economies are extremely small, open and vulnerable, as the crisis has clearly revealed, and will need to be substantially transformed if they are to exhibit significant levels of resilience.

The international outlook is uncertain as the advanced countries are not completely out of recession and are also experiencing extremely high and unprecedented levels of fiscal deficits and debt. As a result, international markets have been extremely volatile and some currencies, for example, the euro, have experienced major depreciations. The current crisis in Greece has not helped and markets have become even more unsettled. Commodities such as gold have attained extremely high historical values, as investors seek safe havens for their assets.

There is another issue emanating from the international community which will become a significant matter for the currency union, namely the decline and possible cessation of foreign aid. As I said earlier, the advanced countries are experiencing major fiscal and debt problems and high levels of unemployment and it will therefore become both fiscally and politically difficult for the currency union to attract sizeable amounts of aid. The countries have relatively high per capita incomes and are not geopolitically important, nor do they have large domestic markets. Consequently, the region will find it virtually impossible to attract aid flows in competition with Sub-Saharan Africa and Haiti in this hemisphere.

A major challenge for us will be to manage the expectations of our citizens against the background of a small population and a narrow natural resource base, in a world economy which will be experiencing below average rates of growth.

The governments of the OECS and the Currency Union have outlined the way forward which is enshrined in two documents, namely:

- The OECS Economic Union Treaty, and
- The Eight Point Stabilisation and Growth Programme.

The Economic Union Treaty is intended to build on the successes of the Treaty of Basseterre of 1981, which established a supranational framework for collective action in several critical areas, for example, the judiciary, currency and central banking.

The new Treaty includes new political and administrative arrangements to allow for effective coordination and efficient implementation of policies, programmes and projects which can facilitate economic growth and social development. It will create a single financial and economic space with the following critical advantages:

- The creation of significant economies of scale in production, marketing, distribution and public administration;
- The spread of risks over a wider geographic space and a larger population; and
- Increased capacity to negotiate with third countries or groups of countries.

Given the current situation in the CARICOM region, the OECS Economic Union has become even more critical to the successful integration of the entire Caribbean.

The Eight Point Stabilisation and Growth Programme sets out in a strategic and cohesive arrangement the critical elements for achieving sustainable growth and development.

The first three components address Financial Programming, Fiscal Reform and Debt Management, which are the core of the stabilisation arrangements.

These prepare the way for a fiscal and growth stimulus through the fourth component, namely Public Sector Investment Programmes which are aimed at jump-starting the economies and providing both national and regional infrastructure for accelerated growth.

The fifth component, Social Safety Net Programmes, is vital to protect vulnerable groups and to prepare them to enter the formal economy as productive participants. In this regard, a major project is being coordinated by the OECS Secretariat with assistance from the World Bank.

The final three components address the stability, regulation and development of the financial system so that it can function effectively as an intermediary and provide access to financial resources for growth projects.

In the final analysis, the challenge for us is the integration and transformation of our economies into diversified, highly productive and internationally competitive entities, which can improve the standard of living and quality of life of our citizens of the Eastern Caribbean Currency Union. This we hope to achieve by the year 2020.

Thank you and good night.