

Eastern Caribbean Central Bank



Annual Report 2011/2012

Presentation by the Honourable Sir K Dwight Venner
27 June 2012

**Presentation on the
Eastern Caribbean Central Bank 2011/2012 Annual Report
By the Honourable Sir K Dwight Venner, Governor
27 June 2012**



Good evening fellow citizens of the Eastern Caribbean Currency Union.

In keeping with the Corporate Governance Principles of the Eastern Caribbean Central Bank which emphasize transparency and accountability, I am pleased to present to you this evening a report on the performance of the Bank during the last financial year, 1st April 2011 to 31st March 2012.

The year was a challenging one as the global crisis continued to affect the economic and financial systems of our member countries. The report will place emphasis on the policies and programmes carried out during the year, the financial performance of the Bank and the Bank's priorities for the coming year. This is all in keeping with the mission statement of the institution which is: "to maintain the stability of the EC dollar and the integrity of the banking system in order to facilitate the balanced growth and development of member states".

The adverse impact of the global crisis has led the Bank to concentrate its efforts and resources in four areas, namely, financial stability, fiscal and debt sustainability, money and capital market development and sustainable growth and development.

Financial Stability

The challenge in the area of financial stability stemmed from the knock-on effects of the global crisis on the economies of the member countries which led to a higher level of non-performing loans in the commercial banking system, a fall in the level of bank earnings, increased provisioning for bad loans and some impairment of capital. The financial system continues to be affected by the earlier events involving the CLICO and BAICO insurance companies and the intervention of the Bank of Antigua and the ABI Bank Limited. The ECCB has been fully involved in the resolution efforts which have been completed in the case of the Bank of

Antigua, near completion in the case of the ABI Bank, and partially complete in the case of insurance companies.

From the institutional viewpoint, the Monetary Council has established a number of Ministerial Sub-Committees to deal, in a focused way, with issues arising in the various sectors of the financial system, namely, banking, insurance, credit unions, and the international financial sector. The ECCB has also encouraged the formation of sector associations to facilitate discussions on issues pertinent to their operations; the establishment of professional standards; and collaboration with the relevant regulators to maintain stability in the financial system. The Monetary Council has also established a Task Force, chaired by the ECCB, to review and make recommendations on the maintenance of stability in the financial system. The task force comprises members from the ECCB, ministries of finance of member countries, the IMF, the CDB and the World Bank. The World Bank has provided grants to the ECCB which have been used to enhance the accounting standards in the ECCU through workshops for practitioners aimed at keeping them abreast of developments in international standards, and to improve the level of regulation in the non-bank financial sector. A significant amount of work has been carried out by the Bank in such critical areas of financial stability as:

- the establishment of a single financial space in keeping with the new Economic Union Treaty and the underlying assumptions of a currency union;
- the consolidation of major financial institutions within this space in keeping with points 7 and 8 of the Eight Point Stabilization and Growth Programme; and
- a review of the arrangements for upgraded regulation and supervision within the space.

The Monetary Council has also approved the establishment of a Resolution Trust Corporation with the mandate to assist in the process of restructuring of financial institutions.

Fiscal and Debt Sustainability

With respect to fiscal and debt matters, the Bank continued its work in collaboration with CARTAC, the IMF, the CDB and the World Bank, to improve the performance of the member countries in public finance management. Several workshops and seminars were held

during the year at which practical training was given to officials from the ministries of finance of member countries. The Monetary Council also implemented a policy which requires the publication of fiscal targets by member countries at the beginning of each year as a critical element in the fiscal arrangements of the ECCU.

The fiscal and debt area is a particularly challenging one at this time as three of the member countries have now undertaken IMF Programmes. These programmes require a lot more than the normal technical work with increased demands on the staff of the ministries of finance and the ECCB.

Sustainable Growth and Development

The major challenge facing our countries however is the return to growth at a sufficiently high level to reduce unemployment to reasonable rates, to lower poverty levels, and to assist in maintaining the human development indices at their current levels and improving them where warranted. The ECCB has therefore placed this subject very high on its agenda. We have been involved in some very intense work in-house and have participated in discussions at the country, currency union, regional and international levels in search of solutions to this problem.

The Monetary Council has established a Task Force on Debt, Growth and Development with membership from the ECCB, OECS member countries, the CDB, IMF, and the World Bank to review and make recommendations on this matter. Their final report will be presented to the Council in October 2012.

Money and Capital Market Development

To facilitate the growth initiative the Bank has been mindful of the role of money and capital markets as set out in Article 4(3) of the ECCB Agreement. Institutions such as the Eastern Caribbean Home Mortgage Bank (ECHMB) and the Eastern Caribbean Securities Exchange (ECSE) are continuing to make significant contributions to this development through the

issuance of securities and the technological and administrative processes for market development.

The Regional Government Securities Market (RGSM) has made major strides during the year with five of the member states placing securities regularly on the market. These issues ranged from 91 days to 10 years in maturity and have been taken up at competitive rates of interest. The number of auctions this year increased from 29 to 36 and the member governments raised approximately \$675m.

A major step was taken with the establishment of the Eastern Caribbean Automated Clearing House (ECACH) Services Incorporated which will manage the processing and settlement of retail payments across the ECCU. This will be a critical element in the efficient functioning of the single financial space. The Eastern Caribbean Enterprise Fund (ECEP) is now operational and headed by an experienced financial expert provided by the Commonwealth Secretariat under a technical assistance programme. The Fund is designed to be a multifaceted institution providing venture capital, development finance, and technical assistance to private sector firms.

Public education on financial matters is a vital part of the market development process. The Bank has been conducting a number of these programmes including the Savings and Investment Courses from which over 2000 students have graduated to date. More recently the Bank has introduced an Entrepreneurship Course which is widely subscribed. Seminars have been held with the media which has an important role to play in disseminating information to the public.

The monetary policy of the ECCB is centered around the maintenance of the stability of the currency. The indicators which depict this stability have been quite robust despite the difficult environment. The backing of the currency remains well above the legal limit of 60 per cent as well as the operational limit of 80 per cent, averaging 96 per cent over the last financial year. The real effective exchange rate has remained within the range set by the central bank and is

considered to be in line with competitive levels. The import cover, a measure of the adequacy of foreign exchange reserves to meet the region's import bill, averaged over 4 months. This is above the benchmark of three months set by the IMF. The Bank carried out extensive research work over the period on the interest rate as a tool of monetary policy with particular emphasis on the impact of the administered minimum savings rate. Work was also undertaken on the pricing of petroleum products which has a marked effect on inflation, the balance of payments, and the fiscal position of member governments.

ECCB's Financial Performance

The financial performance of the Bank was impacted by the global crisis. The Bank realized net income of \$11.7m as compared to the previous year's income of \$22.6m. Contributing to this was a reduction in commission income on foreign transactions and lower gains on the sale of securities. As at March 2012, the total assets of the Bank stood at \$3.3 billion as compared with \$2.8 billion for the previous year. This was mainly due to inflows of grants and loans to member governments from international institutions. Also contributing to this increase was the reinvestment of income on foreign assets and gains on the sale of foreign securities held within the ECCB's foreign reserve portfolio.

The Way Forward

The 2012/2013 financial year will be equally challenging as the global environment has not markedly improved. The circumstances in Europe and the slow recovery in the United States are cause for concern. This has had an effect on the growth of the Chinese economy and by extension on those countries which have grown by exporting commodities to China. Another significant dip in global growth will have serious repercussions on the currency union.

The new economic union arrangements and their successful implementation are critical to the stabilization and growth of the ECCU economies. The lowering of unit costs of operations in the public and private sectors and the coordination of policies, programmes, and projects across the single financial and economic space are vital to improvements in the productivity

and competitiveness of our economies.

The ECCB through the Monetary Council will be a critical part of the new arrangements as set out in the Economic Union Treaty and in our mission statement. We have set ourselves a very focused programme, much of which is a carry-over from the last financial year. This will involve a more intense concentration on financial stability, fiscal/debt sustainability, the development of money and capital markets and the acceleration of the growth process which is the main factor in our path to long term development. We look forward to working with all the organs and institutions of the OECS and the people of the region in achieving a higher standard of living and quality of life for our people.

Thank you and good night.