



**Resolution Strategy
for Strengthening
ECCU Financial
System**

**Consolidation of
Banks and
Insurance
Companies**

**Harmonised
Legislation**

**Consolidated
Regulation and
Supervision**

**Single Economic
and Financial
Space**

**Presentation on the Eastern Caribbean Central Bank 2013/2014 Annual Report
by the Governor, the Honourable Sir K Dwight Venner
June 2014**

Good evening fellow citizens of the Eastern Caribbean Currency Union.

I am pleased to present to you this report on the performance of the Eastern Caribbean Central Bank during the financial year, ended 31st March 2014.

The year under review, like recent years, was one of profound economic and financial challenges. This report seeks to provide an assessment of the challenges that continue to confront us as a region and identify the strategies and activities undertaken by the Bank, aimed at maintaining the stability and resilience of the financial system and promoting the growth and development of the member countries.

Overview

Since the 1980s when the highest economic growth rates, averaging 6.0 per cent, were recorded, there has been a secular decline in growth in the ECCU. Real Gross Domestic Product (GDP) growth is provisionally estimated at 0.7 per cent for 2013 and forecasted at 1.9 per cent for 2014. Returning to the growth levels of the 80s will be critical if the current issues of sustained growth, job creation and substantially increased per capita incomes are to be addressed. This will require significant changes to our current economic policies and models in order to lower cost, increase productivity and expand market size. The global recession, which has exposed and exacerbated the structural weaknesses of our economies, has presented the region with a unique opportunity to address the economic impediments of insufficient size and scale that continue to hamper higher levels of sustained growth and development.

All sectors in the economies must undergo significant adjustment and transformation to become competitive in this new and very challenging environment. This is particularly so for the financial sector which is highly fragmented and fractionalised and must therefore be stabilised, consolidated and restructured.

The Bank finalised the vision for the ECCU financial sector in the context of the implementation of the provisions of the Revised Treaty of Basseterre, the creation of a single financial space and the need to transform the ECCU economies to facilitate self-sustained growth. A strong indigenous banking sector and a robust regulatory and supervisory framework for the financial system, as a whole, are critical to the achievement of this vision.

The private sector will also have to reinvent itself to change its structure from being one-third formal, two-thirds informal and 90.0 per cent concentrated on wholesale, retail, real estate and construction activities. The new balance should see a reversal of the formal/informal ratio and a vibrant and innovative export sector.

For the public sector, greater coordination at the national and regional levels is required in order to facilitate a reduction in the cost and an increase in the efficiency of government, two necessary ingredients to address the fiscal imbalances which have seriously affected the growth potential of our countries.

It is against this background that the Bank has recommended a new policy framework and architecture to address the regions structural defects in order to foster sustainable growth and ensure the continued stability of the currency and the financial system. Accordingly during the year, the Bank focused its activities on:

- Maintaining financial stability and enhancing the resilience of the financial sector;
- Supporting member governments' efforts at prudent debt management and fiscal reform and;
- Promoting policies and programmes aimed at fostering sustained and balanced economic growth and development.

Financial Stability

In fulfilling its mandate to maintain stability and strengthen the resilience of the banking sector, the ECCB gave priority to activities in the following areas:

1. Restructuring and recapitalising the banking sector;
2. Engaging the indigenous banks to respond to the necessity for creating a new banking model to address the challenges faced by the banking sector;

3. Reforming the regulatory and supervisory framework of the financial system through the strengthening of the legal framework by amendments to the ECCB Agreement and Banking Act; and
4. Establishing an Asset Management Corporation to address the level of non-performing loans and the stability of the banking sector.

At the official level, the Bank's ability to promote and maintain financial stability and improve the resilience of the financial system was strengthened by technical assistance provided by the International Monetary Fund (IMF) and The World Bank, with financial assistance from the British and Canadian governments.

At the banking sector level, an Amalgamation Steering Committee, comprising representatives of indigenous banks across the ECCU was formed, with supporting subcommittees, to examine and make recommendations on specific components of the restructuring process.



The following committees and working groups were also established to work on strengthening the arrangements governing regulation and supervision in the ECCU as well as international cooperation and coordination:

- An ECCU Credit Bureau Legal and Regulatory Working Group
- An ECCU Working Group on the United States Foreign Account Tax Compliance Act (FATCA)
- The Basel II Implementation Steering Committee

- An ECCU Foreclosure Committee
- A Legislative Committee comprising ECCU Attorneys General and other members of the legal fraternity.

On the approval of the Monetary Council, the ECCB on 12 August 2013, assumed control of the National Bank of Anguilla Ltd and the Caribbean Commercial Bank (Anguilla) Ltd, under the special emergency powers in Part IIA, Article 5B of the Schedule to the ECCB Agreement Act 1983. The purpose of the intervention was to protect depositors and creditors and maintain confidence in the banking sector. In addition, the ECCB continued to manage the affairs of the ABI Bank Ltd since assuming control on 22 July 2011, and continues to facilitate the process of transitioning the bank to new owners.

On-going discussions with the banking sector have also been critical in developing and implementing solutions to maintain and strengthen the stability and resilience of the financial system. Over the financial year the Bank held several meetings with commercial banks and in addition, convened the 24th Annual Conference with Commercial Banks under the theme: “Towards a New Financial Architecture for the Eastern Caribbean Currency Union (ECCU)”.



Monetary Stability

Monetary stability was sustained in the ECCU member countries over the financial year. The Bank safeguarded monetary stability by:

- Ensuring an adequate supply of currency;

- Engendering confidence in the currency and low inflation through the maintenance of the fixed exchange rate peg to the US dollar; and
- Prudently managing the region's foreign reserves to achieve maximum returns at minimum risk.

The prevailing economic circumstances did not compromise the domestic currency, which remains adequately backed with foreign reserves. At the end of the financial year the foreign reserve backing of the currency was 95.68 per cent, significantly above the statutory limit of 60.0 per cent and the prudential norm of 80.0 per cent.

Growth in the monetary aggregates was evident with liquidity in the commercial banking sector remaining high as total deposits rose at a faster rate than was recorded in the previous financial year and credit conditions remained subdued.

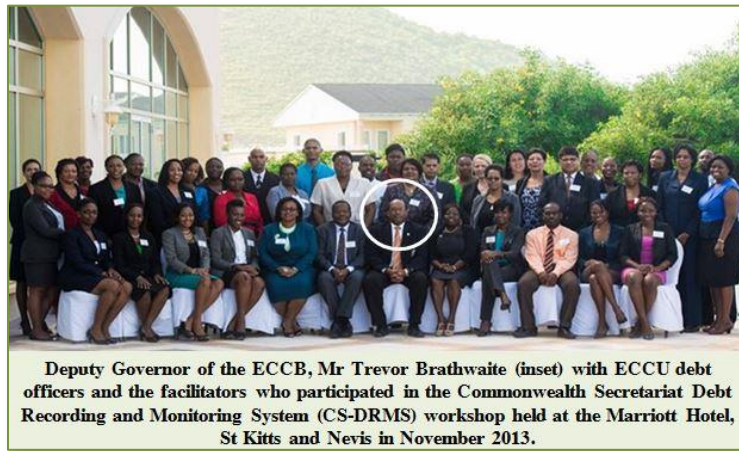
Fiscal and Debt Sustainability

Fiscal and debt sustainability issues were at the forefront of discussions at meetings of the Monetary Council and the Board of Directors of the Bank with emphasis on fiscal adjustments and fiscal targets.

In supporting member countries efforts at prudent debt management, the Bank through the Canada-Eastern Caribbean Debt Management Advisory Service project, sponsored by the Department of Foreign Affairs, Trade and Development, Canada, continued to provide support to the ECCU member countries through its training and technical assistance programme on debt management. During the financial year, training in Negotiation Techniques for Sources of Finance continued with in-country workshops facilitated by the Crown Agents.

The Bank, through the debt management project, also continued to provide technical support to the member countries in the development of medium term debt management strategies.

To assist the countries in accurately capturing and monitoring their debt, workshops were also held to build capacity in the Commonwealth Secretariat Debt Recording and Monitoring System.



Deputy Governor of the ECCB, Mr Trevor Brathwaite (inset) with ECCU debt officers and the facilitators who participated in the Commonwealth Secretariat Debt Recording and Monitoring System (CS-DRMS) workshop held at the Marriott Hotel, St Kitts and Nevis in November 2013.

Promoting Sustained Growth and Development

During the financial year the ECCB continued to promote initiatives geared towards the sustained growth and development of member countries. In this regard the Bank:

- Continued to advocate for a three-pronged approach to growth to complement the OECS Growth and Development Strategy;
- Continued work on a growth targeting framework for analysis of monetary and credit conditions involving the development of benchmark ranges for money and credit indicators;
- Participated in consultations with member countries on the development of The World Bank's OECS Regional Partnership Strategy for 2015-2019 as well as the launching of the Caribbean Growth Forum Chapters for all member countries; and
- Continued to support the OECS Business Council's initiatives which are geared to transforming the private sector into one which can contribute significantly to the growth and development agenda of member countries.



Governor, The Honourable Sir K Dwight Venner with members of the ECCU Business Council

Research and Economic Surveillance

In light of the challenges posed by an increasingly complex and changing global economic environment, the Bank deepened its research and economic surveillance in order to strengthen its ability to understand the long term impact on the region's economies and consequently bolster its policy advisory function. The Bank's research programme focused on four policy themes, namely:

1. Growth;
2. Financial Stability, Consolidation and Development;
3. Fiscal and Debt Sustainability; and
4. Monetary Policy in a Quasi-Currency Board Arrangement.

The resulting papers have provided useful information for the Board of Directors and the Monetary Council in their policy deliberations.

During the year the Bank fulfilled its surveillance and intelligence gathering function by the on-going monitoring of developments in member countries, the conduct of Annual Assessment Missions and preparation of annual and quarterly economic and financial reviews. The Bank also participated in IMF staff visits and consultations.

ECCB's Financial Performance

As at 31 March 2014 the Bank's total assets stood at \$3.9b, an increase of \$188.6m (5.09 per cent) when compared to the position last year.

Notwithstanding, the Bank reported a net loss of \$17.97 m compared to a profit of \$4.81 m in the previous year. The Bank's main source of income is derived from the return on the Bank's foreign reserve assets which, in large measure, is dependent on the performance of the US economy and financial markets. The deterioration in the Bank's financial performance was due to the unprecedented low interest rates and volatility in the international markets.

The Bank has been taking steps over the years to prepare for the impact of such external shocks as the global crisis. Accordingly, the Bank has maintained a General Reserve as a safety net, a Special

Reserve, the Fiscal Tranche II and over the last four years, as a precautionary measure, the Board of Directors agreed to set aside a portion of profits distributed to member governments. At the institutional level, the Bank has put significant effort into streamlining its operations to improve efficiencies and in the process has reduced operating costs.

The Way Forward and Conclusion

The strength of the currency and the safety of deposits in the banking system have been the anchors on which the stability of our economies and financial system has been built over the last three decades, in the face of monumental challenges. In the 2014/2015 financial year, the Bank will continue to do all in its power to fulfil its mandate to preserve a stable currency and banking system.

This crisis and the evolving global and regional market conditions and challenges give us a once in a lifetime opportunity to restructure our economies and to put forward our best efforts to effect the socioeconomic transformation of our countries.

In conclusion, it has become clear that much more coordination at both the national and regional levels needs to take place in our policymaking and economic and financial architecture in the coming year. The arithmetic of these benefits is incontestable but not likely to be taken up without an overriding philosophy about who we are and want to be as a collective body. We must enlarge our perspectives to realise that while there is a lot to be done within our borders, we will not succeed if we do not combine our efforts across our countries. This is one of the stark realities we must face, for in this lies our hope for sustained growth and development.

Thank you and good night