

JUNE 2010

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YOUR FINANCESYOUR FUTURE

YOUR FINANCIAL NEWS

Governor Venner reports on the performance of the ECCB for the period April 2009 – March 2010



I HAVE A DREAM

To buy a car

To attend university

To own stocks and bonds

To own my home

To own a business

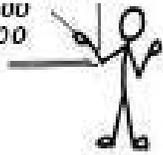
To send my child to university

To be debt free

To retire in comfort

To go on a world tour

School Books = \$320.00
Lollipop = \$2.00
Bus Fare = \$2.00



Talk To Your Children About Money

Make Every Penny Count...

Stocktaking Count Every Penny



Presentation of the ECCB 2009/2010 Annual Report
by Sir K Dwight Venner, Governor
 29 June 2010

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

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Presentation of the ECCB 2009/2010 Annual Report by Sir K. Dwight Venner *Cont'd*

exceeded that of the previous year.

The role of the Eastern Caribbean Home Mortgage Bank (ECHMB) must also be mentioned. This institution which was established 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 convener 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 (ECEEF) 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.

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Presentation of the ECCB 2009/2010 Annual Report by Sir K. Dwight Venner Cont'd

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.

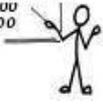
The fifth component, Social Safety Net Programmes, is vital to protect vulnerable groups and to prepare them to enter the formal economy as productive participants. In this regard, a major project is being coordinated by the OECS Secretariat with assistance from the World Bank.

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. ●

Talk To Your Children About MONEY

School Books = \$320.00
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At what age is it appropriate to begin to teach kids about money? Is it at the pre-school stage, at the pre-teen or at the teenage stage?

The earlier the better if you ask me. From the time a child is able to count to ten and appreciate nursery rhymes and children's stories, the time is right to talk about money. Talk about what things cost and the importance of choosing wisely when spending one's money (*choosing needs as opposed to wants*) since one would not have all the money to be able to buy everything.

Certainly, the discussion would have to be age-appropriate, so parents should begin with simple concepts for young children and then deepen the conversation as children get older.

Consider using nursery rhymes to jump start your discussion with younger children:



SIMPLE SIMON MET A PIEMAN

Simple Simon met a pieman,
Going to the fair;
Says Simple Simon to the pieman,
Let me taste your ware.
Says the Pieman to Simple Simon,
Show me first your penny;
Says Simple Simon to the Pieman,
Indeed I have not any.



THE OLD WOMAN WHO LIVED IN A SHOE

There was an old woman who lived in a shoe
She had so many children she didn't know what to do.
She gave them some broth without any bread,
Then whipped them all soundly
And put them to bed.

As parents, we engage our young kids in reciting nursery rhymes and we focus on their memorising the verses and appreciating the rhythm of the words. But have we realised that stories like these provide simple yet instructional platforms to talk about a) the cost of goods, b) that one must have money to acquire those goods and c) parents do not have unlimited money to afford everything that a child may want?

Parents can use such nursery rhymes to introduce discussions with their little ones on the cost of food items that the child eats – *bread, milk, cereal, juice, fruits, ice-cream, sweets, chips, cookies..* Let the child know that mommy and daddy sometimes do not have money to buy all the stuff that the child wants. Additionally, parents can discuss with their little ones the importance of spending wisely i.e. buying the goods that are really needed and foregoing items which one may want but not really need, and living within one's means. Introduce words like "afford", as in "I cannot afford", and "budgeting" -

identifying *the items that money will be spent on each month*. Make budgeting a family affair and involve the children.



Parents should strive to make discussions about money, fun for children by incorporating them into games. For e.g. when parents come home from the supermarket, they can ask their young children to identify the goods purchased and then ask them to guess the price of each good. Parents should give hints along the way - "*go higher or lower*" - to guide children to the right answers. This enables children to understand the cost of goods. Then explain to them how mommy and daddy obtain money to buy the goods that the family needs.

I have made a habit of giving my daughter, since she started grade one, the supermarket receipts. On the way home from the supermarket I engage her in conversations about the prices (numbers) she sees listed on the receipts. We discuss the prices I paid for the recently purchased goods. So when I tell her I do not have \$7.00 to buy that tin of Pringles because I have to give her money for lunch each Friday, she gets the message...*if mommy buys the potato chips I won't have money for Friday lunch... spending money on lunch is more important than spending it on snacks.*



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Talk To Your Children About MONEY Cont'd

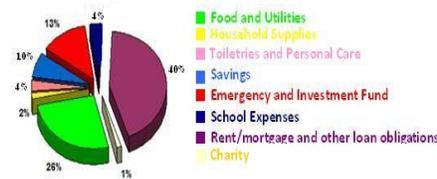
Introduce also, into the discussion, the importance of buying food items that are needed to ensure good nutrition and foregoing those items that are not nutritious even though one may want and like those items.

It is important that parents let children know what goods cost and the value of money. Many times one would hear a parent berating a child; “Boy do you know how much money I am spending on you to send you to school and you are forming the fool”. If the child were to answer truthfully, he would say “No mommy I do not have any idea, because you never discussed this with me.” However, the child is smart enough to keep his mouth shut and avoid punishment.

The truth is many of us do not discuss specifics about money with our children – like the price of the shoes we just purchased for them to go to school, or the cost of the school books and uniforms or the school fees. And when we do, this information is often introduced in anger, when we are berating our children. Hence the opportunity to have a calm and instructive discussion about money with our children is lost.

Also discuss with children, including your young ones, what are the goals of the family, and then show how money is being put towards those goals. For example, say to the child:

Budgeting – Allocating The Household's Net Income



– *We want you to be the best that you can be and that means having a good education so that is why we spend \$300 on your school books and \$50 on your school shoes. We expect you therefore to do your best in school, study hard, pay attention to the teacher and do your homework. We also expect you to care those books and shoes.*

- *We want you to be healthy so we spend \$200 each week on fish, chicken, fruits, vegetables, eggs, cereal, and milk to ensure that you can have meals that are good for you.*

- *Our goal is to own our home so we are saving \$300 each month so that we can amass the \$10,000 required as the down payment.*

Show your children the monthly household bills – *telephone, water, cable, electricity*. Talk to them about why they should turn off the tap when brushing their teeth to reduce the water bill, or why they should turn off the lights when leaving a room to reduce the electricity bill. Set a goal to reduce the electricity bill the following month by ensuring that all lights are turned off in rooms not occupied and each month see if the family achieved the goal. Make it fun and enjoyable so

that kids would not only understand but enjoy the lesson. Design a jar and charge a cent for children and a dollar for adults each time a family member leaves the lights on. Lessons are best taught when they are enjoyable.

Also let children know the value of making wise spending choices. At six years of age, my daughter came to me one day and said “Mommy can I have a MP3 player?...all the kids in my class have one.”

I responded, “Mommy does not have any extra money to buy a MP3 player because she has to have money to pay for your music lessons, and to put aside as savings for your college fund. However if you really want the MP3 player I can save your Friday lunch money for four months and then buy the MP3. You however would have to go without lunch each Friday for four months. The choice is yours, food or a MP3.”

She replied “Okay mommy, I choose the MP3 player”. But a few seconds later she turned back and said. “Mommy, you know what, I’ve changed my mind, I don’t need the MP3 player but I need food to live.”

Silently I breathed a sigh of relief. I did not have to enforce ‘no Friday lunch’ for the next four months to prove my point.

When all is said and done however, the best instructions we can give to

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Talk To Your Children About MONEY Cont'd

Monkey See, Monkey Do

our children about money is not what we say but what we do. Our children are like sponges, they absorb everything that they see us do. So we have to reflect on our money habits and ask ourselves, 'what lessons are we giving our children?'

Do they see us bringing home lots of clothes and jewellery every pay day and no books to read?

Do they see us making plans to go to the bank to put money on a

savings account or do they see us swiping and swiping our credit cards?

Are we always in fast food joints picking up the family dinner or at the supermarket picking up nutritious foods to prepare affordable and healthy meals?

Do they see us giving to the poor and in so doing teach them the importance of being charitable or do they see us responding to beggars with anger and disgust?

Do they see us sitting at the kitchen table sorting out our bills and making plans to pay them on time or do they see us planning complex schemes on how to avoid paying our hire purchase bill this month and our electricity bill next month?

Remember, monkey see, monkey do. Let's make it a priority to provide good instructions to our children about money. It just makes sense! *slw*

Saving can be easy and fun for the whole family

Savings Jar

This is an easy and decorative craft idea that will help you save for your family's next vacation, or for any special expense (new bikes; gift; etc.)



What you will need:

- Glass jar with lid, clean and dry
- Acrylic paints
- Fine-tipped paintbrush
- Construction paper
- String, yarn, or embroidery

floss

- Hole punch, 1/8"
- Pen
- Flat head screwdriver
- Hammer
- Pliers

1. Paint a scene on the jar to remind you of your savings goal. Let dry.

2. Cut a tag from a piece of construction paper. Make it in any shape. Maybe you might like a tag in the shape of something that would remind you of your goal. Just don't make the shape too large.

3. Write "X money" on the tag. Use a hole punch in the top of the tag.

4. Cut a piece of string for the tie. Tie on jar as shown in picture. (If needed, you can tie the string around the lip of the jar.)

5. Use a screwdriver and hammer to poke a hole in the lid.

6. Smooth out the inside of the lid with the pliers and/or hammer.

7. Place in your house for the family to contribute their spare change to all year. It is surprising how fast it will add up!

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Editor's note: Each time the jar fills up, deposit the money on an account at a bank to gain interest.

Make Every Penny Count ...Count Every Penny

Your Mid-Year Financial Stocktaking Exercise

Stocktaking **A reappraisal of one's own position or prospects.**

Just as every business needs to take stock periodically to identify wastage and profitability and get an accurate snap shot of the business' current holdings so do you in relation to your finances.

So you are now at that half-year mark.

1. What has been the cost of your living relative to your disposable income? Have you been channeling the bulk of your income into tangible assets or consumables?
2. How have your finances performed thus far?
3. Are you less or more profitable than when you started out in January?
4. Have you managed your debts effectively? i.e. *Is the value of your assets more than the value of your debts?*
5. What do the major part of your asset holdings consist of - *cash assets? bonds? stocks? your home? other real estate?*
6. Have the assets in which you have invested demonstrated an increase or a decrease in value over the six month period?

Periodic financial stocktaking can answer those questions and indicate:

- whether you are doing well in relation to your asset management and debt control mechanisms or whether there is a need to put in place reform measures or improve control measures in one or more areas; and
- Your wealth position (*total assets less total debts*) and prospects for sustained financial stability and success.

Taking time to take stock of your finances also demonstrates that you are focused on results and serious about managing your finances effectively and efficiently. It is also a proven method of increasing financial control.

WHERE TO BEGIN:

Assessing your assets, debts... wealth

A good place to start is to assess where you are today, financially. Do you own more than you owe or do you owe less than you own? In other words what is your wealth position (*i.e. net worth*)?

You can compute your wealth position by completing a personal balance sheet statement. This

YOUR PERSONAL BALANCE SHEET
As at20

PERSONAL ASSETS	Value	PERSONAL LIABILITIES	Value
CASH AND EQUIVALENTS		SHORT TERM LIABILITIES	
Cash		Vehicle Loans	
Checking		Personal Property Loans	
Savings Accounts		Credit Card Balances	
Certificate of Deposit		Hire Purchase Balances	
Treasury Bills		Other Short-term Debt	
Other Liquid assets			
CASH AND EQUIVALENTS SUBTOTAL		SHORT TERM LIABILITIES SUBTOTAL	
INVESTED ASSETS		LONG-TERM LIABILITIES	
Mutual Funds		Primary Residence Mortgage	
Stocks		Other Residence Mortgage	
Bonds		Rental Mortgages	
Life Insurance Cash Value		Land Debt	
Rental Properties		Other Long-term Debt	
Land			
INVESTED ASSETS SUBTOTAL		LONG-TERM LIABILITIES SUBTOTAL	
PERSONAL ASSETS			
Primary Residence			
Other Residences			
Vehicles			
Personal Property			
Other Personal Assets			
PERSONAL ASSETS SUBTOTAL			
TOTAL ASSETS		TOTAL LIABILITIES	
		PERSONAL NET WORTH (Assets - Liabilities)	

statement would identify what **you own** (assets) and what **you owe** (liabilities) and their respective valuations.

Taking stock of your finances means taking charge. The findings from your stocktaking exercise should arm you with the information required to place yourself in a more financially resilient position. *slw*