

Staying Connected

For the Alumni of the ECCB's Savings and Investments Course



Presentation on ECCB 2008/2009 Annual Report

Sir K Dwight Venner, Governor, ECCB
29 June 2009



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 ECCB Annual Report *Cont'd*

Sir K Dwight Venner, Governor, 29 June 2009

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;
 - 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

Cont'd on page 3

The ECCB Annual Report *Cont'd*

Sir K Dwight Venner, Governor, 29 June 2009

Regulatory Oversight Committee presents major challenges for the comprising representatives of all Currency Union. 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

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

Cont'd on page 4

The ECCB Annual Report *Cont'd*

Sir K Dwight Venner, Governor, ECCB

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**
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.

Cont'd on page 5

We need stability, fortitude, unity and a strong sense of purpose to see us through these difficulties.

The ECCB Annual Report *Cont'd*

Sir K Dwight Venner, Governor, ECCB

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.

1. 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.

2. 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.

**Save and Invest Today...
Enjoy Tomorrow**

Financial Information Month, October 2009

Anansi and The Poor Savings Bank *by SLW*



Against the backdrop of the moral that it always pays to be honest, the story, *Anansi and The Poor Savings Bank* explores the bank licensing process in the Eastern Caribbean Currency Union.

Clang! Bang! Clang! Bang!

Mama Hen shouted, "I cannot take it any more. Every morning before Papa Cock-A-Doo can wake up the morning sun, Anansi is out there with his raucous....Bang! Bang! Bang! Palang"

"What is Anansi building Papa?" asked Baby Hen.

"I don't know my little chicken, but knowing Anansi it will be the talk of the village for years to come", replied Papa Cock-a-Doo.

And so went the next 10 months and 28 days with everyone in the village fussing about Anansi's noise.

Anansi, however, paid them no mind. He continued to bang and clang his way to create his masterpiece.

Finally one day the noise stopped; and everyone gathered around to see what Anansi had created. They came face to face with a big orange, red and green wooden and stone building with a big green neon sign which read:

Coming Soon !!!
The Poor Savings Bank

"But Anansi," said Miss June, the farm lady, "Why do you want to have a bank for the poor to save. The poor don't have any money. That's why they are poor. So how are they going to find money to save in your bank?"

"That's right Anansi" chimed in Clacky Fowl and Lady Bo Peep.

Anansi looked up and down at the crowd which had gathered and shouted, "You all know Master Chin. Is he rich or poor?"

"Rich," replied all.

"And who are his main customers, the rich or the poor?" continued Anansi with his line of questions.

"The poor," replied all.

Anansi asked again. "Mr Baker. Is he rich or poor?"

"Anansi you know that Mr Baker is rich. Don't you see the fancy buggy he has been driving lately?" responded Spotty the dog.

Anansi asked again. "Who buys bread and cake and coconut drops from Mr Baker? The rich or the poor?"

"The poor."

"And the rich grocer, Mr Padmaja? Who buys his stuff?"

"The poor."

"Why all these questions? What is your point Anansi?" asked Sandra the housekeeper.

"Well", said Anansi "My point is simple. How come these poor folks have money to make Mr Chin, Mr Baker and Mr Padmaja rich, but don't have any money to save to make themselves rich? Answer me that question or forever hold your peace."

"Anansi has a point," said Papa Cock-a-Doo.

"I am always telling you people that Anansi has sense," muttered the farmer's boy.

"But Anansi," asked Maggie the frog. "How come you put the word "savings" in front of the word "bank"? Isn't that being repetitive?"

Motioning wildly with his hands, Anansi exclaimed, "That's the point! The word is for emphasis. The problem with you folks is that you like to put your money on a bank on Monday and then come back on Tuesday, Wednesday, Thursday and Friday to take it off to go on a spending spree....This bank is to put your money on and leave it alone...This is not a bank to pass your money through like some strainer or funnel. This is a bank to save and build your riches. Put your money in my bank, forget it for a few years and see your money grow."

"And who is going to watch over my money while I am forgetting about it? You, Anansi?" asked Maggie.

The crowd burst out laughing.

"I have my people in place to do that already. But it is none of you sorry losers' business. Banking business is serious business and I have serious people as my staff, directors, and senior officers," rebutted Anansi.

"But Anansi, do you have a banking licence to operate a bank?" asked

Anansi and The Poor Savings Bank *Cont'd*

Maggie. "I know you need a licence before you can operate a bank. That much I know."

Anansi now showing signs of being frustrated, replied. "Maggie, just like the frog you are, you want to jump ahead of everything. Don't you see the sign says coming soon? It did not say that the bank is ready to open. I have my paperwork in order and I am going to the Ministry of Finance to submit my application with all of the information they asked for."

"But what do you know about running a bank Anansi? I don't know you to have any banking experience," said Jim, the teacher.

"When the first bank ever opened, what experience did those people have? You have to start somewhere," replied Anansi.

Old man crow sitting on a branch looked down on the crowd and muttered, "True, true Anansi. You have a point. You have to make a start somewhere. "

Anansi continued. "The application from the Ministry of Finance asks for a lot of information – Reason for wanting a banking licence, business plans, a chart showing how the bank will be organised, the rules and systems in place to ensure the bank is operating properly, information on the persons who will work at the bank so that background checks can be carried out to find out whether those persons are honest and capable. The application also asks for proof of the 5 million dollars required to start the bank and the source of the 5 million."

Maggie quickly jumped upon hearing that big figure. "5 who.....5 mmm...million millllllio million(stammering) From where would Anansi find 5 million dollars to start a bank?Anansi where did you get 5 million from to start this bank?."

Anansi continued as if he did not hear Maggie.

"The application also asks for me to provide information on the main place of operations for the bank as well as information on the competition and why I think my community needs another bank. I have all this and everything else they have asked for in my completed application form. So since none of you work for the Ministry of Finance, I don't see why I am bothering to answer your questions."

"Well Anansi, it is the poor you want as customers, right?" asked Snotty, the pig.

"Right" responded Anansi.

Snotty continued "Well, when I look around, it is only poor folks I am seeing, so you better be good to us because if you get the licence it is us you going to want to come to do business with you."

"Sure ...SureI love you guys," said Anansi. "You are like family to me. And I know that you will all support me and my bank when we open. I am just a little anxious, that's all. I don't mean to be short-tempered with any of you."

Old Man Crow turned to Anansi and said, "Go on Anansi, go submit your application and may the gods of good luck be with you."

When Anansi left, Mother Cow spoke to the crowd. "Listen up. Let me tell you something, Anansi may as well turn that building over to Mr Padmaja so he could expand his grocery store, because Anansi could submit all the application he wants to the Ministry of Finance but when the Ministry forwards that application to the ECCB for a recommendation there is no way those ECCB people, having done their investigations in accordance with the Banking Act, are going to recommend that Anansi gets any licence to open a bank for the poor, or the homeless. Banking business is serious business. It is not for slick, tricky, dream-chasers like Anansi."

"True, true," muttered Old Man Crow.

Mother Cow continued "You need serious minded people to manage a bank. I won't trust my grass scraps with Anansi, never mind my hard earned dollars. But I am not worried. I know it is sharp, no-nonsense people working at the ECCB, and they are very particular about who they recommend for a banking license. Give the licence to the wrong man or animal and that one bad bank could mess up all the good banks and put in trouble the entire banking system. So let Anansi go on. Humor him Old Man Crow in his dream to nowhere. But as for me I am going to tell Mr Padmaja to start making preparations to move into this new building of Anansi. You hear me.

She continued, "The more Mr Padmaja expands his grocery business, the more jobs available to my little moo moo cows. I have 13 of them and if I don't find them some part-time jobs while they are in cow school that means I will have to be working overtime on farmers land to feed them all. Is dead I dead if I take on any more work."

Maggie talking out loud repeated, "5 million. How come nobody is curious about where Anansi got 5 million from to start this bank?"

Anansi and The Poor Savings Bank *Cont'd*

Old Man Crow chipped in quickly, "My dear young Maggie. Slow down. I have been around a little longer than you and so I am a little wiser. Take my advice. The least you know about the whereabouts of Anansi's 5 million, the better for you."

It had been three weeks since Anansi had submitted his application to the Ministry of Finance and he wondered if it had already been forwarded to the ECCB. The Ministry had requested that he provide some additional documents and he had done so. He felt confident that any day now he would be walking into his bank...

As he stared up at the silver skies he saw a shooting star and made a wish...

***"Shooting star. Dear noble star
way up high where you are
May you grant this simple wish
Noble star, it goes like this
An honest banker may I be
Shooting star, shine your luck on
me."***

Hear Old Man Crow at the podium "Ladies and gentlemen it gives me great pleasure to introduce to you, the distinguished and venerable Mr Anansi, now the CEO of **The Poor Savings Bank**. This is a man who never gave up on his dream to own his own bank. We wish him much success in his latest venture."

As the crowd applauded and cheered, Anansi approached the platform in a sparkling white suit. The suit was so white that it outshone the sun. Anansi noticed, however, that no matter how fast he walked, the platform seemed to be moving further and further away.

A loud knocking on his door woke him out of his dream.

"Anansi have you heard anything about your banking licence yet?" – It was Maggie, the frog.

"Goodness Maggie, why are you harassing me so early in the morning?" asked Anansi.

"Anansi, I am just so excited about your Poor Savings Bank!" shouted Maggie. "I can't wait for it to open. But Anansi, just tell me one thing to ease my mind. From where would

you have gotten 5 million dollars to start this bank?"

Anansi frowned angrily and without saying a word to Maggie, slammed his door.

Maggie, shouting outside Anansi's door "You won't get rid of me that easily Anansi. I want to know, the birds want to know, the trees want to know, in fact everybody wants to know."

The birds in the trees started to chirp as if they were in a choir:



"Everybody wants to know

I want to know

Everybody wants to know

I want to know

Everybody wants to know

Where the money came from?

Where the money came from? (birds singing bass)

Where the money came from?" (birds singing soprano)



story continues at...

<http://www.eccb-centralbank.org/PublicAwareness/Index.asp>



Are You Minding Your *Financial* Business?