

Monetary Unions in the Caribbean Context – The Challenges faced by the Eastern Caribbean Currency Union since the Crisis

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Historical Perspective

- ❑ Current monetary arrangements in the Eastern Caribbean Currency Union (ECCU) emerged from the mid-20th Century when the established international banks, Barclays and Royal began issuing their own currency under the authority of the British government.
- ❑ English speaking territories were British colonies and thus authorized the circulation of these currency notes.
- ❑ Then in 1950, the British Caribbean Currency Board (BCCB) which was headquartered in Trinidad was the first monetary authority and served Trinidad and Tobago, Guyana, Barbados and the territories of the ECCU, namely Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St Kitts and Nevis, Saint Lucia and St Vincent and the Grenadines.



Historical Perspective

- ❑ The 1960s saw the quest for independence by Trinidad and Tobago and Guyana. These two countries withdrew from the BCCB. As a result the Eastern Caribbean Currency Authority (ECCA) was formed.
- ❑ The institution was headquartered in Barbados until 1974 when Barbados withdrew from the arrangement to form its own Central Bank.
- ❑ Following this dissolution, the headquarters was moved to Basseterre, St Kitts. The OECS Treaty of Basseterre in 1981, called for common central banking, as a result the Eastern Caribbean Central Bank (ECCB) was established by agreement in 1983.



Historical Perspective

- ❑ The charter of the ECCB calls for the following:
 - Regulation of the availability of money and credit;
 - Promotion and maintenance of monetary stability;
 - Promotion of credit and exchange conditions and a sound financial structure conducive to balance growth and development of the economies of the ECCCU territories;
 - Active promotion through means consistent with its other objectives the economic development of the ECCU territories.



Features of the Eastern Caribbean Central Bank

- ❑ Ultimate Decision Making Body of the ECCB is the Monetary Council.
- ❑ Board of Directors of the Bank comprises of one appointee from each of the member territories, the Deputy Governor and the Governor who is the Chair of the Board.
- ❑ The Board is responsible for policy and administration, with the appropriate recommendations being made to the Monetary Council for their approval.
- ❑ The central bank has functional departments each headed by a Director who report to the Deputy Governor and the Managing Director respectively.
- ❑ The Managing Director is the chief staff appointee, while the Governor and Deputy Governor are appointed by the Monetary Council on fixed term renewable contracts.



Successes of the ECCB

- ❑ Even before the creation of the ECCB in 1983, the EC dollar, the issued currency was fixed at a parity of EC\$2.70 to US\$1.00
- ❑ Another success factor for the ECCB is the unanimity rule.
- ❑ ECCB model is the pooling of foreign reserves. All foreign currency earned from the exports of goods and services are pooled and invested in international markets.



Challenges

- ❑ Revised Treaty of Basseterre created the concept of a single financial and economic space within the currency union.
- ❑ The major challenge for the single space is the population size.
- ❑ Thus the effects of the Great Depression of 2008/9 are still being felt today.
- ❑ The region is also characterized by higher than average debt.
- ❑ Financial sector events



Challenges

- ❑ The ECCU response to this debacle was as follows:
 - The drafting of Uniform Insurance legislation for enactment in all territories of the ECCU. The insurance legislation will give more power to the supervisor to pre-empt actions of insurance operators which could affect the clients of these institutions;
 - The establishment of a regional supervisory institution which will regulate and supervise NBFIs including Insurance companies;
 - And in accordance with the 8 point Stabilisation and Growth Programme, encourage the rationalization of insurance entities, of which there are 161 insurance entities operating in the ECCU.



Challenges

- ❑ The financial sector was under further strain as the Central Bank had to intervene in four licensed commercial banks operating in the ECCU.
- ❑ In 2009 the Bank of Antigua (BOA) collapsed as a result of the SEC charging and arresting its owner for engaging in a Ponzi scheme.
- ❑ In August 2011, the central bank intervened in another national bank that became insolvent as a result of the pressures from the financial crisis created by the Great Depression.



Challenges

- ❑ In July 2013, the central bank intervened in two national banks in Anguilla, the National Bank of Anguilla and the Caribbean Commercial Bank.
- ❑ The banks had become insolvent as a result of the collapse in the economy of Anguilla.
- ❑ The central bank is now in extensive discussions with the Government of Anguilla on the resolution of the Banks.



Responses

- ❑ In order to respond to the economic crisis caused by the Great Depression, the Eight Point Stabilization and Growth Programme was developed and endorsed by all member territories of the Currency Union.



Responses

- ❑ The following are the elements of the 8-point programme:
 - Suitably adapted Financial Programmes for each country;
 - Fiscal Reform Programmes;
 - Debt Management Programmes;
 - Public Sector Investment Programmes;
 - Social Safety Net Programmes;
 - Financial Safety Net Programmes;
 - Amalgamation of the Indigenous Commercial Banks;
 - Rationalisation, Development and Regulation of the Insurance Sector.



Responses

- ❑ For the first three elements of the programme, the Central Bank with the assistance of the International Financial Institutions has conducted Boot Camps for policy units and debt units in the ECCU.
- ❑ The governments of the territories have a number of Social safety net programmes, these range from providing short term employment to the poor and marginalized to assisting persons to start their own businesses.



Responses

- ❑ In response to the challenges that were encountered from the crisis, the ECCB is spearheading the development of a Deposit Insurance Fund, which we anticipate will be established in another 12-18 months.
- ❑ The governments of the territories have a number of Social safety net programmes, these range from providing short term employment to the poor and marginalized to assisting persons to start their own businesses.
- ❑ As a result of the crisis, non-performing Loans escalated.



Responses

- ❑ The ECCB has also promoted the passage of new banking legislation.
- ❑ There are now 39 licensed commercial banks operating in the ECCU, 26 of those being international Canadian bank branches.
- ❑ Given the outfall of the CLICO/BAICO collapse, rationalization of the Insurance sector is critical.



Conclusion

- ❑ From the foregoing experiences, the ECCU has made substantial progress in weathering the storms of the financial crisis that emanated from the Great Depression.
- ❑ Growth rates are trending upwards; there is much resolve at the policy level to continue to make the adjustments that are necessary to bring our economies and the financial sector on a firm footing.
- ❑ A few questions remain – did it work? What would we have done without the current arrangements?

Thank You!

